



Prime London rents fall, but market sees continued healthy demand

Headline rents in the prime London market fell again in September, meaning rents have been on a downward trajectory for over a year. However as Liam Bailey, Knight Frank's head of Residential Research confirms, the real state of the rental market is confirmed by healthy lettings activity

Results for September 2012

Prime London rents fall 0.1% in September

Rents fall 2.3% on annual basis

Flats marginally outperform houses
(rental declines of 2.0% and 3.1% respectively over the past year)

The volume of new rental instructions has risen by 20% since January, compared to the same period last year

The number of new tenancy starts has risen 18%

Once again the Knight Frank Prime London Rental Index confirms another month of falling rents. While not especially dramatic, a 2.3% annual fall does weigh on income returns for landlords. With gross yields falling to a new low of 3.2% in September, new entrants in the investment market are having to work their portfolios hard to minimise costs, especially voids.

While some locations are bucking the wider trend, rents have risen marginally over the past quarter in the City and Notting Hill, the general tenor is for weaker rents across all price brackets.

As we commented last month, weaker rents relate to London's weaker than expected economic recovery, with employment levels in the financial and business services sector in particular still contracting.

However while rents are slipping, they are only part of the story. Activity levels confirm a healthier picture.

While the volume of new rental instructions has risen by 20% over the past nine months, compared to the same period last year, this rise has been largely met by a rise in the number of

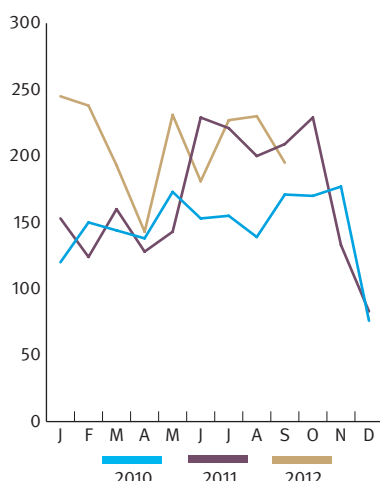
new tenancies, which have risen by 18% over the same period. The volume of new tenancy starts so far this year has outpaced the level seen in each of the last five years, confirming that there are healthy levels of demand for rental property.

The slightly higher rate of growth in new instructions compared to new tenancy starts does mean that landlords will want to keep an eye on rising stock volumes as we move towards the year end. A significant upward movement in this measure will constrain the ability of landlords to increase rents even if London's economy begins its hoped for recovery in 2013.

The need for caution from landlords is confirmed by the ratio between the volume of new tenant registrations and the volume of newly available properties. This ratio has slipped, averaging 3.4 in the first nine months of 2012, compared to 4.1 in the same period of 2011.

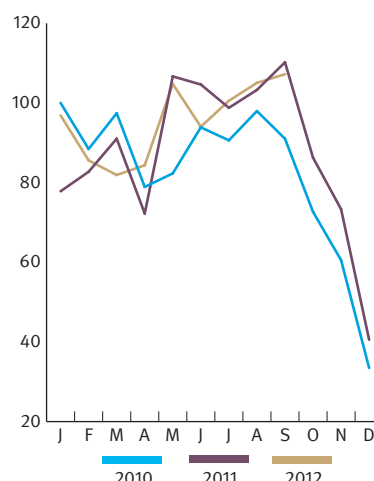
The fact that activity is rising while rents are receding points to the underlying strength of demand in the London lettings market. The ability for rental increases to stick in 2013 will ultimately be determined by the direction taken by London's economy.

Figure 1
Supply
Monthly volume of new rental instructions, prime London (Indexed)



Source: Knight Frank Residential Research

Figure 2
Demand
Volume of prospective tenant registrations, prime London (Indexed)



Source: Knight Frank Residential Research

"While rents are slipping, they are only part of the story. Activity levels confirm a healthier picture."



Liam Bailey, Head of Residential Research

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.

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.
Index monthly from August 2011	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%
	Jun-12	176.9	-0.1%	-0.6%	-0.2%	0.0%
	Jul-12	175.6	-1.1%	-1.2%	-1.0%	-0.8%
	Aug-12	174.9	-1.7%	-1.4%	-1.1%	-0.4%
	Sep-12	174.6	-2.3%	-1.5%	-1.3%	-0.1%

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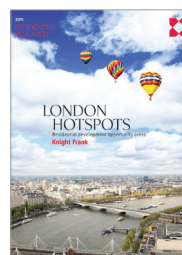
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