

Knight Frank launches first Private Rented Sector index

Our PRS index shows the performance of large-scale investment stock in key rental markets in the UK: Leeds, Bristol, Birmingham, Glasgow, Manchester and London.

Key facts

Average gross yields at **6.6% in Q4 2013**

Yields ranged from 3.5% in prime London to 10.2% in Leeds

Average rental growth in six key cities **was 2.9% in 2013**

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Our index is comprised of rental data collected from properties classed as prime, median and economic. The classification of these blocks takes into account location, monthly rents and also the type of unit on offer – a prime block will have the most desirable units. In contrast, economic blocks are the least expensive for tenants, but their capital value is also lower, indicating higher initial yields for investors.

The key regional cities we have focused on are expected to experience a pick-up in economic activity in the coming years – with the forecast pace of growth in Gross Value Added (GVA), a measure of economic growth, outpacing the national average, especially from 2015 onwards.

Results

The index shows that average rents paid rose by an average of 2.9% last year – ranging from 0.4% growth in London zone 1 to 5.27% in Manchester.

Capital values for residential blocks rose by an average of 6.4% last year, taking the average gross yield to 6.6% in Q4 2013. Initial yields have not only been squeezed by rising capital values, but also the erosion of the discount on offer for the purchase of residential blocks. At the start of 2012, investors could obtain a discount of more than 30% on the full capital value of some residential blocks reflecting the minimal activity in the market – especially the regions. Today, the discounts on offer are between 7% and 16%, a reflection of increased activity. If the discount is factored into the capital growth of the rental blocks, it rises to 13.8% for 2013. The total return on investment private rented sector blocks in our index was 11.3% in Q4 2013.

More detailed analysis of each city market, and an examination of the wider PRS market, is contained in our latest research report: [The Rental Revolution](#).

FIGURE 1
Regional growth in private rented sector
2001-2011/12

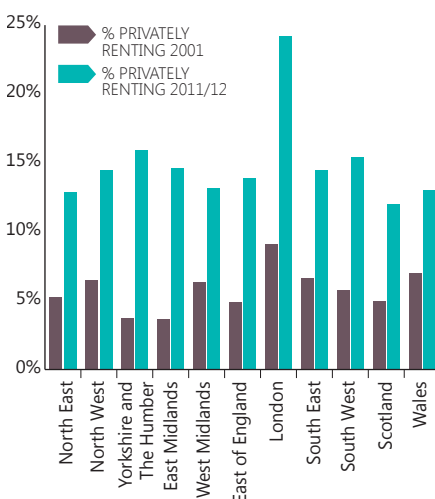
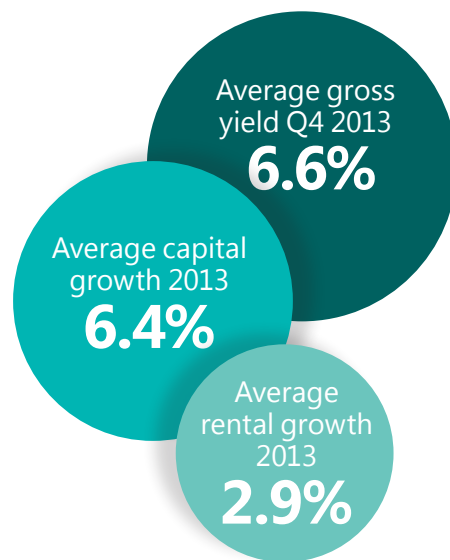


FIGURE 2
Knight Frank PRS index



GRÁINNE GILMORE
Head of UK Residential Research

"The index shows the breadth of the yields and returns achieved in the PRS across the UK."

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Source: Knight Frank Residential Research / DCLG / ONS / Census Scotland

Source: Knight Frank Residential Research

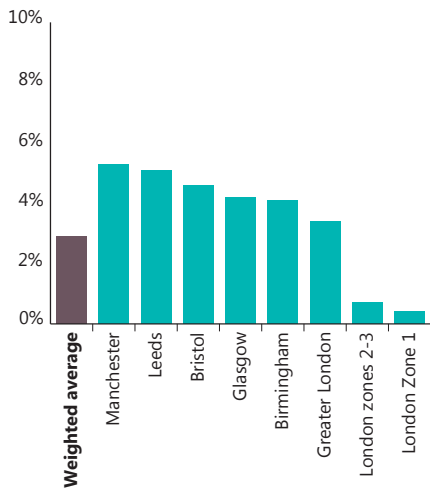
PRS Index

City	Average rental growth	Average capital growth	Average gross yields	Average discount Q4 2013
London zone 1	0.4%	9.5%	4.4%	7%
London zones 2-3	0.8%	9.7%	5.5%	8%
London zones 3-6	3.4%	10.2%	7.1%	10%
Bristol	4.6%	2.7%	6.7%	14%
Birmingham	4.1%	3.7%	8.2%	14%
Manchester	5.3%	3.1%	8.0%	13%
Leeds	5.1%	3.0%	8.2%	15%
Glasgow	4.2%	3.1%	7.9%	17%

Source: Knight Frank Residential Research

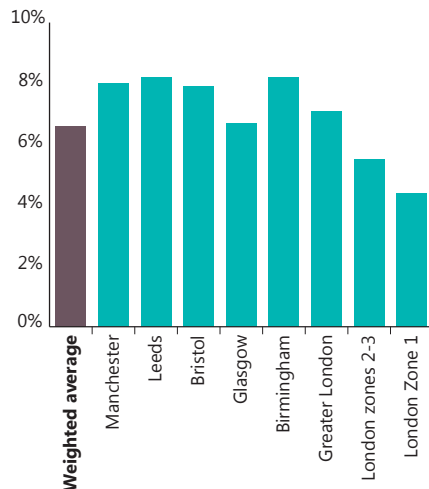
“Capital values for residential blocks rose by an average of 6.4% last year, taking the average gross yield to 6.6% in Q4 2013.”

FIGURE 3
Average rental growth 2013



Source: Knight Frank Residential Research

FIGURE 4
Average gross yields Q4 2013



Source: Knight Frank Residential Research



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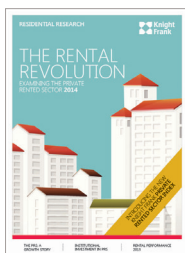
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