



News Release

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Prime London residential rents rise to a record high

Prime London Lettings Index, April 2011

- Prime London rents rose 0.4% in April, representing their 20th consecutive monthly rise. The latest monthly rise contributes to an annual growth rate of 16.3%.
- Rents in central London are at a record high, up 25% since their low point in June 2009 and marginally exceeding the previous peak reached in March 2008 by 0.2%.
- Strong rental growth has outpaced capital value growth over the past year, and has pulled income yields higher, with prime central London gross yields hitting an average of 3.8% in April, up from 3.3% in June last year.

Liam Bailey, Head of Knight Frank Residential Research comments: "The central London residential lettings market has been enjoying a quiet boom over the past 18 months. Demand for accommodation from a recovering financial and business services sector is high, and supply of accommodation has been weak, with potential supply leaking into the sales market as owners look to capitalise on near record prices.

"Firm evidence of the ongoing strength of London's prime rental market is presented by the fact that rents rose by more than 25% since June 2009. This reflects a huge improvement since mid-2009, when the market was suffering from massive oversupply and weak tenant demand.

"With rents now marginally above their March 2008 peak level we still see scope for 5% to 10% rises in rents during 2011.

"Aiding the growth in rents is the fact that the volume of available rental properties has fallen considerably, by almost 18% in the 12 months to April this year, compared to the previous 12 months.

"Demand from tenants has held relatively firm, set against this weakening of supply. The reason for this resilience in tenant demand relates to the fact that employment conditions in central



London are much healthier than they were 18 or even 12 months ago. Morgan McKinley, the City recruiter, reports job vacancies have increased by 27% over the past year.

“Limited stock means that there are a large number of prospective buyers who are still locked out of owner-occupation and renting is their only alternative. While central London sales are outperforming the UK market, even here sales volumes over the past 12 months have been a third lower than they were in 2007.

“There is no evidence so far that rental supply is rising. While high-profile sales of new-build developments to Asian investors are taking place, the reality is that for all the noise from this sector, we are talking about scores rather than hundreds of new prime market units in central London. There simply aren’t enough new units coming out of the ground to have anything other than a local impact in terms of depressing rental values.

“As long as the mortgage market in the UK remains in its current parlous state, the volume of equity-rich investors is sufficient to be able to compete successfully with prospective owner occupiers, pushing more would-be buyers into the rental sector. This is one reason why the £400 to £1,000 per week rental sector is particularly strong in terms of tenant demand across London.”

Tim Hyatt, Knight Frank’s head of lettings comments: “With strong rental growth outpacing improvements in capital value for the last year, yields have begun to edge higher, much to the relief of landlords. Despite this it is still difficult in the majority of prime London to achieve much more than a 4% gross yield and 3.8% is more realistic. Over time higher yields could be achievable.

“The one increasingly common question from prospective investors, especially following a period of strong rental growth, is: how secure are rents at their new levels?

“If we step back and take a longer view, we can see that rents haven’t actually risen significantly over time. While they are marginally above their 2008 peak, remarkably they are only 21% higher than they were a decade ago – surprising when you consider that household incomes in central London have risen by 48% in that time.

“This should comfort investors. Even allowing for last year’s surge in rents, renting is cheaper now (for tenants), in real terms, than it was in 2000.”



	KF Prime Central London Rental Index	12 month % change	6 month % change	3 month % change	monthly % change
Mar-08	175.5	12.2%	4.1%	1.0%	
Jun-08	174.5	7.3%	0.4%	-0.5%	
Sep-08	171.4	1.7%	-2.3%	-1.8%	
Dec-08	155.0	-10.8%	-11.2%	-9.6%	
Mar-09	143.5	-18.2%	-16.3%	-7.4%	
Jun-09	140.8	-19.3%	-9.2%	-1.9%	
Sep-09	140.9	-17.8%	-1.8%	0.1%	
Dec-09	144.2	-7.0%	2.4%	2.3%	
Mar-10	149.8	4.3%	6.3%	3.9%	
Jun-10	153.7	9.2%	6.6%	2.6%	
Sep-10	163.2	15.9%	9.0%	6.2%	
Dec-10	166.8	15.7%	8.5%	2.2%	
Mar-11	175.1	16.9%	7.3%	5.0%	
Apr-11	175.7				0.4%

Source – Knight Frank Research

For further information, please contact:

Liam Bailey, Knight Frank Residential Research, +44 (0) 20 7861 5133 liam.bailey@knightfrank.com

Daisy Ziegler, Knight Frank PR Manager, +44 (0) 20 7861 1031 daisy.ziegler@knightfrank.com

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Notes to Editors

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