

PRIME CENTRAL LONDON RENTAL RECOVERY TAKES HOLD

The prime central London rental market has risen for three months out of the first four in 2014 as a pattern of recovery takes hold, says Tom Bill.

Results for April 2014

Rents rose 0.3% in April 2014, the third monthly increase this year

First two consecutive monthly rises since September 2011

Annual decline of -1.6% is the lowest since July 2012

Yields flat at 2.83%, the first time they haven't fallen in three years

Lettings rise by one fifth and applicants increase 13% as demand remains strong

April's rise marks the first two consecutive months of rental growth in prime central London since September 2011, which was the same month UK banks were told to separate their retail and investment banking arms to protect them against future financial crashes.

Rents rose 0.3%, which was the third monthly rise so far this year. The annual decline fell to -1.6%, the lowest figure since July 2012.

April 2014 brought more legislation for financial institutions, this time in the form of stress tests to prove Europe's banks could withstand a 7% drop in GDP.

That prospect looks increasingly remote in the UK as a brightening economic outlook buoys the prime central London rentals market. The financial services sector is an important source of demand among tenants and a resurgent IPO market and growing mergers and acquisition activity is boosting employment levels and rental declines are bottoming out.

As figure 1 shows, employment growth at financial firms over the last six months has been reflected by a rise in rental values in prime central London in 2014.

The quarterly CBI/PWC survey gathers responses from banks, private equity firms and insurers on various aspects of their business and a result above zero shows a positive score. Figure 1 shows the growing number of companies expecting employment levels to rise over the following three-months.

It is a trend reflected in the prime Home Counties lettings market, which is also influenced by corporate activity. Prime rents across the Home Counties rose by 0.7% in the first quarter of 2014 due to demand from finance, oil and energy staff.

Meanwhile, the rentals market became a topic of political debate, with proposals by the Labour party that include a cap on rent rises.

These measures could prove counter-productive in prime central London, where rental markets vary so drastically from each other that any one-size-fits-all approach to capping increases could deter investors.

Lettings are up by a fifth and applicants up by 13% compared to last year, which shows demand remains strong. Rising rents helped halt a decline in rental yields in April, which remained unchanged at 2.83% from March. It was the first time yields have not fallen in three years.



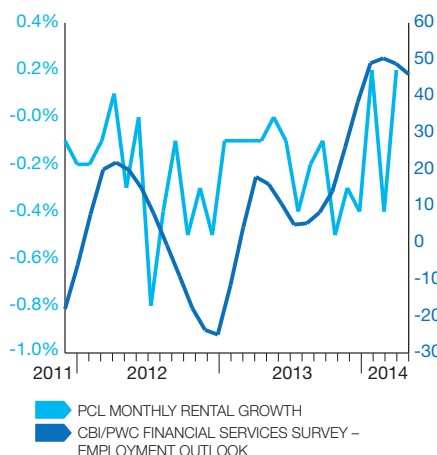
TOM BILL
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"Employment growth at financial firms over the last six months has been reflected by a rise in rental values in prime central London in 2014."

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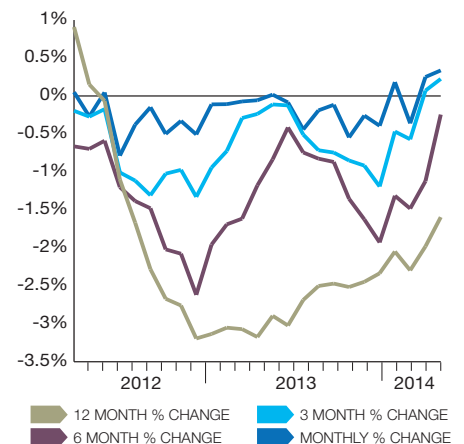
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FIGURE 1
PCL rentals and financial services jobs



Source: Knight Frank Residential Research

FIGURE 2
PCL rental growth



Source: Knight Frank Residential Research

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 & Fringe, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Riverside*, Wandsworth, Wapping and Wimbledon.

* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to include 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.

Knight Frank Prime Central London Rental Index

	KF Prime Central London Index	12 month change %	6 month change %	3 month change %	Monthly change %
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%
Oct-12	173.8	-2.7%	-2.0%	-1.0%	-0.5%
Nov-12	173.2	-2.8%	-2.1%	-1.0%	-0.3%
Dec-12	172.3	-3.2%	-2.6%	-1.3%	-0.5%
Jan-13	172.1	-3.1%	-2.0%	-0.9%	-0.1%
Feb-13	171.9	-3.1%	-1.7%	-0.7%	-0.1%
Mar-13	171.8	-3.1%	-1.6%	-0.3%	-0.1%
Apr-13	171.7	-3.2%	-1.2%	-0.2%	-0.1%
May-13	171.7	-2.9%	-0.8%	-0.1%	0.0%
Jun-13	171.6	-3.0%	-0.4%	-0.1%	-0.1%
Jul-13	170.8	-2.7%	-0.7%	-0.5%	-0.4%
Aug-13	170.5	-2.5%	-0.8%	-0.7%	-0.2%
Sep-13	170.3	-2.5%	-0.9%	-0.7%	-0.1%
Oct-13	169.4	-2.5%	-1.4%	-0.8%	-0.5%
Nov-13	168.9	-2.4%	-1.6%	-0.9%	-0.3%
Dec-13	168.3	-2.3%	-1.9%	-1.2%	-0.4%
Jan-14	168.6	-2.0%	-1.3%	-0.5%	0.2%
Feb-14	168.0	-2.3%	-1.5%	-0.6%	-0.4%
Mar-14	168.4	-2.0%	-1.1%	0.1%	0.2%
Apr-14	169.0	-1.6%	-0.2%	0.2%	0.3%

Source: Knight Frank Residential Research

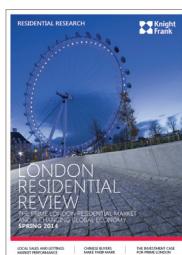
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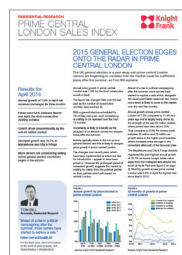
The Wealth Report 2014



UK Residential Market Update April 2014



London Review Autumn 2013



Prime Central London Sales Index Apr 2014

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