

PRIME CENTRAL LONDON LETTINGS MARKET ENTERS PRE-ELECTION HOLDING PATTERN

Activity became more subdued in April ahead of the general election, but a strong underlying economy is fuelling rental value growth, says Tom Bill

APRIL 2015

Rental values increased by 0.5% in April, the strongest rise in six months

Annual growth rose to 4.1%, meaning rents are growing faster than house prices

A post-election bounce in activity is likely to be underpinned by seasonal demand from students and company executives

Viewings and new prospective tenants increased 13% and 16% respectively

Gross yields held steady at 2.92% after a modest rise in house prices

Over the last year, the prime central London lettings market has benefitted from uncertainty in the sales market surrounding the outcome of May's general election.

A number of buyers have opted to rent until the outcome is clear, though demand has been more broadly driven by the strengthening UK economy.

As the election moves closer, this trend has become less marked as a universal sense of hesitation permeates both the lettings and sales markets.

Less than a week from a general election, some prospective tenants have been holding out for the result before deciding whether to rent or buy which, combined with the Easter holiday, led to fairly subdued activity across many markets in April after a strong start to 2015.

The positive underlying economic trend drove rental values 0.5% higher in April, which was the strongest rise in six months and means there has been no decline for 14 months.

Annual growth was 4.1%, which is the highest it has been in more than three years. It also means that rental value growth exceeds price growth in prime central London, which has not been the case for almost four years.

In similar fashion to the sales market, there is a sense that pent-up demand has been created in the lettings market in recent weeks. Any post-election bounce in activity will be buoyed by a seasonal pick-up in demand in the student and corporate markets.

The strength of the market was reflected in the fact the number of tenancies agreed in the year to March rose 18% while the number started increased by 28%. Meanwhile, the number of viewings and new prospective tenants rose 13% and 16%, respectively, as figure 2 shows.

Gross rental yields held at 2.92% in April, the result of a modest rise in sales values in April that was largely driven by price growth in areas including Islington, Hyde Park and the City.



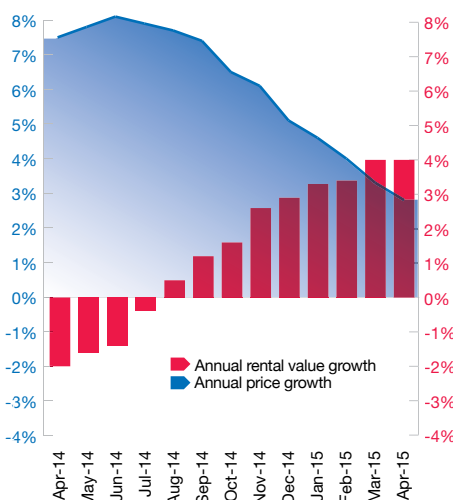
TOM BILL
Head of London Residential Research

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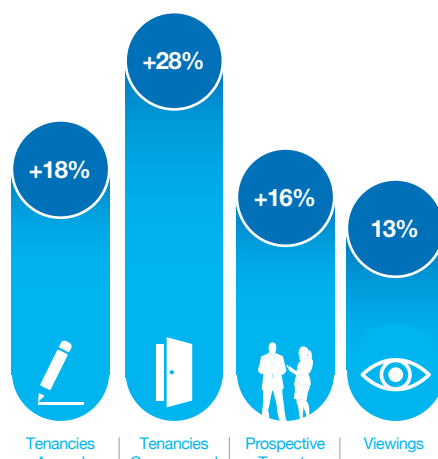
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FIGURE 1
Rental value growth overtakes price growth in prime central London



Source: Knight Frank Residential Research

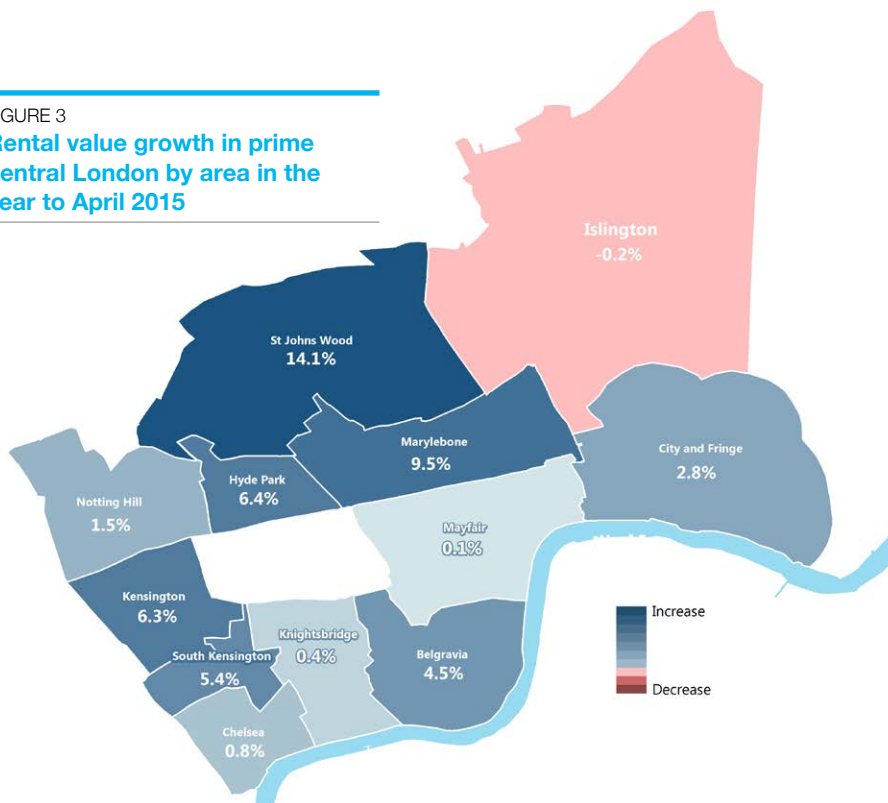
FIGURE 1
Rising demand in the lettings market (Year to March 2015 v 2014)



Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3
Rental value growth in prime central London by area in the year to April 2015



DATA DIGEST

The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. 'Prime central London' is defined in the index as covering: Belgravia, Chelsea, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Barnes, Canary Wharf, Chiswick, Clapham, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

* Riverside in prime central London covers the Thames riverfront from Battersea Bridge in the west to Tower Bridge in the east, including 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 Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Apr-14	169.0	-1.6%	-0.2%	0.2%	0.3%
May-14	169.4	-1.4%	0.3%	0.8%	0.2%
Jun-14	170.9	-0.4%	1.6%	1.5%	0.9%
Jul-14	171.7	0.5%	1.8%	1.6%	0.4%
Aug-14	172.5	1.2%	2.7%	1.9%	0.5%
Sep-14	173.0	1.6%	2.7%	1.2%	0.2%
Oct-14	173.8	2.6%	2.9%	1.2%	0.5%
Nov-14	173.8	2.9%	2.6%	0.7%	0.0%
Dec-14	173.9	3.3%	1.7%	0.5%	0.0%
Jan-15	174.3	3.4%	1.5%	0.3%	0.2%
Feb-15	174.7	4.0%	1.2%	0.5%	0.2%
Mar-15	175.1	4.0%	1.2%	0.7%	0.2%
Apr-15	175.9	4.1%	1.2%	0.9%	0.5%

Source: Knight Frank Residential Research



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