



Rental declines hide demand growth in central London

The pattern of modest rental declines and rising lettings volumes continued in August. Liam Bailey examines the apparent disconnect

Results for August 2012

Prime central London rents fell 0.4% in August, taking the annual change to -1.7%

Rents have been falling since October 2011, bar June 2012 when they remained flat

Rents have fallen more for houses (-2.9%) than for apartments (-1.7%) in the year to August

Rents have fallen more in the £1,500+ per week bracket (-2.8%) than in the £500 to £1,500 per week bracket (-1.6%) in the year to August

Prime central London rents continued on their downward trajectory in August with a fall of 0.4%, taking the annual change to a fairly modest -1.7%.

Rents have been falling since October 2011, bar June 2012 when they remained flat. The market for houses has seen bigger falls than that for apartments, at -2.9% and -1.7% respectively.

Rents have also fallen more in the £1,500+ per week bracket (-2.8%) than in the £500 to £1,500 per week bracket (-1.6%) in the year to August.

Properties in the City are bucking the trend however with a 0.6% rise in the three months to August and a 1.8% rise over the past year, along with Notting Hill, which saw a 0.5% rise in the past three months and a 4.1% rise over the year.

The main factor weighing on rents has been the state of the London economy. Since the end of 2011 the economy has weakened as the Eurozone crisis put downward pressure on growth, confidence and recruitment.

This weakness can be seen in data from recruitment specialist Morgan McKinley, which

confirms that in terms of new employment vacancies in central London, 2012 is far underperforming the picture seen in both 2010 and 2011.

But while rents may be performing below trend, activity has risen, with new lettings volumes in the last three months 18% higher than the same period in 2011. This increase in activity reflects a broader shift in favour of the rental sector across the UK, due to the lack of mortgage market funding for new entrants in the owner-occupier market.

Our view is that the current weakness in headline rents is not evidence of a wider downturn in demand from tenants. Rather it is that affordability constraints are limiting the scope for rental growth, and that the weaker performance of London's economy is effectively resetting rental levels downwards.

Our forecast for 1% growth in 2012 may be slightly too optimistic, but we are confident in our expectation for stronger positive growth in the medium term.

Figure 1
Monthly growth
Prime central London average residential rental change

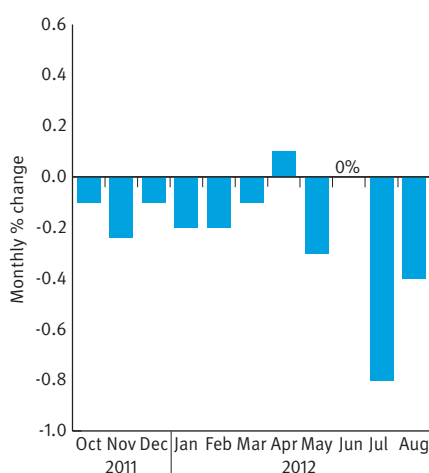
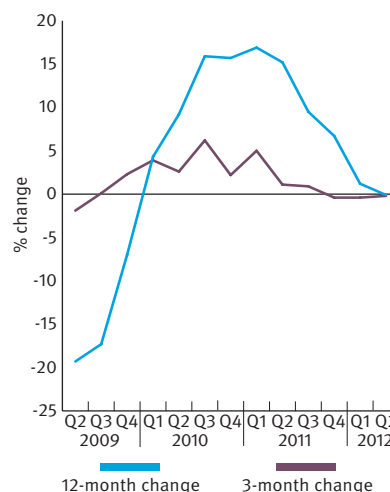


Figure 2
Annual and quarterly growth
Prime central London average residential rental change



“Affordability constraints are limiting the scope for rental growth.”



Liam Bailey, Head of Residential Research

Source: Knight Frank Residential Research

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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	Aug-11	177.9	n.a.	n.a.	0.7%
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%

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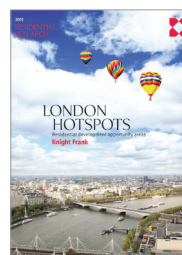
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