

RENTAL GROWTH HITS A THREE-YEAR HIGH AS ECONOMIC UNCERTAINTY RISES

The recovery in the prime central London rental market continued in December despite the impact of wider economic uncertainty in the final quarter of the year, says Tom Bill

DECEMBER 2014

Rental value growth was flat for the second consecutive month in December

Annual growth hit a three-year high of 3.3% as the UK recovery continued

Some buyers have opted to rent due to the possibility of further property taxation after the general election

Prime central London property outperformed other asset classes in 2014 despite global economic volatility

The number of Chinese tenants rose fourfold between 2013 and 2014 in spite of China's economic slowdown



TOM BILL

Head of London Residential Research

"While commodity prices have fallen markedly, partly due to concerns over the Chinese economy, demand among Chinese tenants and buyers for prime central London property has increased"

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Rental values in prime central London were flat for the second consecutive month in December as a seasonal year-end slowdown and the impact of global economic uncertainty dampened demand.

Though monthly growth slowed to zero by the end of the year, the annual increase in rental values was 3.3%, which was the highest rate in three years.

Annual growth has been climbing steadily since July as the UK economy improves and some buyers switch to the rental market while political uncertainty surrounds the outcome of the general election and the prospect of further property taxes remains.

However, while the UK's economic indicators have improved, caution surrounded the world economy in the last quarter of the year, including falling oil prices and the economic outlook in China and the euro zone.

The result is that companies or individuals are more likely to postpone decision-making while they wait for clarity.

As figure 2 shows, global economic unpredictability rose in December. The VIX

index measures volatility on the US stock market and the spike in December is linked to the recent drop in oil prices, which has unnerved investors due to its pace and impact on oil-exporting countries like Russia.

It followed a spike in October linked to events in Syria and Hong Kong as well as the Ebola outbreak and concerns the Federal Reserve was going to raise interest rates sooner than expected.

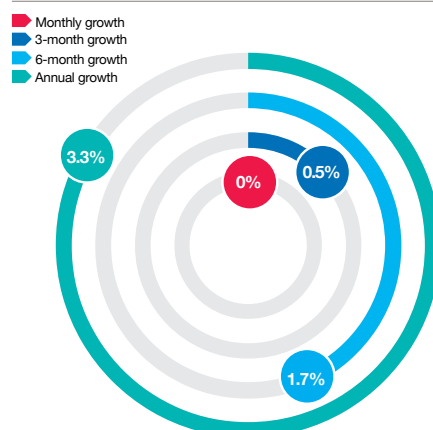
Despite this uncertain global economic and political backdrop, prime central London residential property remained a sound investment in 2014, as figure 2 shows.

Total returns, which include rental income and capital value growth, outperformed a series of other asset classes in the year to November, proving its resilience as an investment.

For example, while commodity prices have fallen markedly, partly due to concerns over the Chinese economy, demand among Chinese tenants and buyers for prime central London property has increased, buoyed by its safe haven appeal. This is underlined by the fact the number of Chinese tenants increased by almost fourfold in 2014 compared to 2013.

FIGURE 1

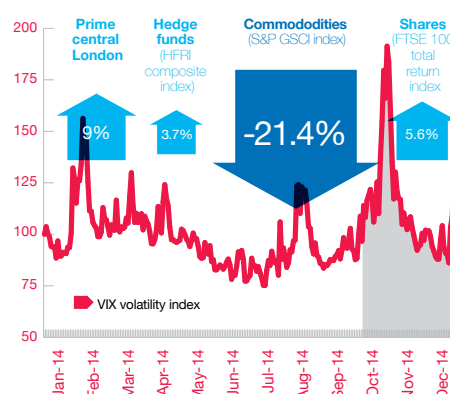
Prime central London rental value growth in December 2014



Source: Knight Frank Residential Research

FIGURE 2

Prime central London property outperforms other asset classes in a volatile year (12 months to November 2014)

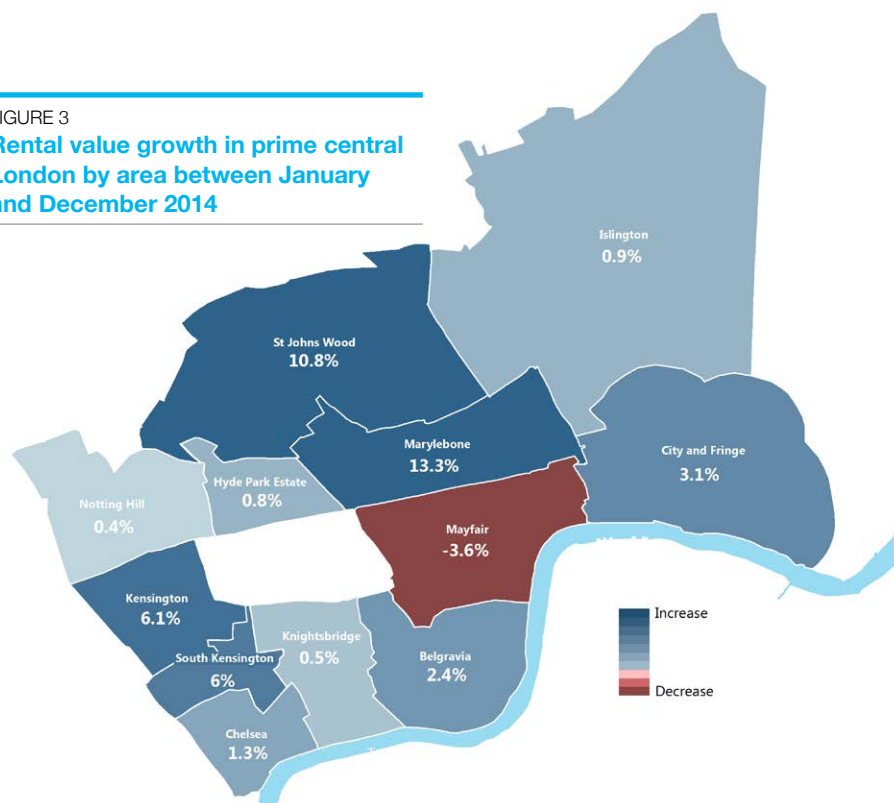


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3

Rental value growth in prime central London by area between January and December 2014



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
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%
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%

Source: Knight Frank Residential Research

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