



Prime London residential rents fall further

The current round of rental price falls relates to weaker conditions in the central London employment market, argues Liam Bailey, Knight Frank's Head of Residential Research.

Results for February 2012

Average rental prices fell by a further 0.2% in February

Rents have now turned negative on a three-monthly basis, down 0.4%

Strong growth in mid-2011 contributed to an annual rise of 6.7% to Q4 2011

Recent rental falls mean that average rents are now at the same level as June 2011

The rapid rebound in rental levels between mid-2009 and late-2011, when rents rose by 26.9%, was driven by a revival of the central London economy, following the ravages of the credit crunch and global recession.

By October last year, rents had recovered all losses sustained in 2008 and early 2009, and hit an all-time high at 1.8% above their previous peak in March 2008.

Further growth from here was dependent on continued demand-side expansion. But with job losses in the City beginning in Q3 last year, demand began to fall back a little in October.

While employment prospects in central London are still weak, there are some encouraging indicators for landlords. The volume of new tenant registrations rose 23% in the three months to February compared to the same period a year earlier.

While supply has also risen, it has done so at a slower rate. New property instructions are higher by only 13% over the same period.

An additional measure confirms conditions in the market are beginning to improve in favour of landlords, with the ratio of new applicants to new instructions rising from 3.1 to 3.5 over the past year.

Yet again the strongest part of the market remains the lower price ranges, with average rents in the £500 to £1,500 per week bracket down by only 0.1% in the three months to February, compared to a decline of 0.9% in the £1,500+ per week bracket.

Our view is that rental growth will be positive in 2012 as a whole, assuming the early signs of an improvement in the London economy from Q2 this year bear fruit.

Figure 1
Monthly growth
Prime central London average residential rental change

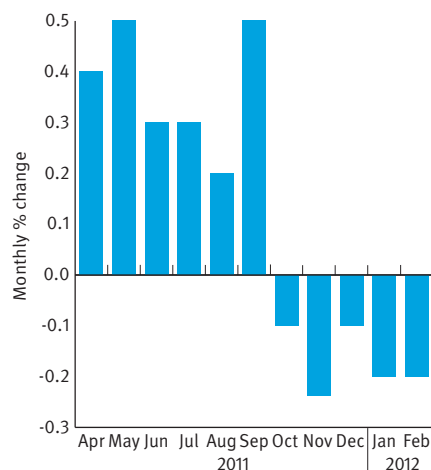
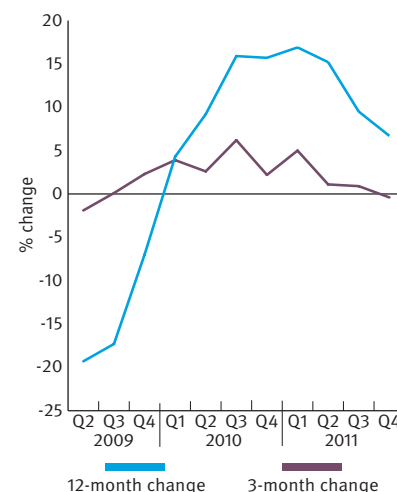


Figure 2
Annual and quarterly growth
Prime central London average residential rental change



"The strongest part of the market remains the lower price ranges."



Liam Bailey, Head of Residential Research

Source: Knight Frank Residential Research

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RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank



Know your tenant

Top 15 prime London tenant nationalities, 2010 and 2011

2010		2011	
40%	United Kingdom	42%	United Kingdom
15%	US	14%	US
6%	France	5%	France
3%	German	3%	Italy
2%	Australia	3%	Russia
2%	India	3%	German
2%	Italy	3%	Spain
2%	Spain	2%	Australia
2%	Russia	2%	India
2%	Sweden	2%	Ireland
2%	Netherlands	1%	Sweden
2%	Canada	1%	Netherlands
1%	Ireland	1%	Canada
1%	Norway	1%	Japan
1%	Switzerland	1%	China

Asia-Pacific North America Europe

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 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 April 2011	Apr-11	175.7	n.a.	n.a.	n.a.	0.4%
		May-11	176.6	n.a.	n.a.	n.a.	0.5%
		Jun-11	177.1	15.2%	6.1%	1.1%	0.3%
Jul-11		177.5	n.a.	n.a.	1.0%	0.3%	
Aug-11		177.9	n.a.	n.a.	0.7%	0.2%	
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%	

Key market metrics

Prime central London rental market activity, three months to February 2012 compared to same period last year

Demand	New tenant registrations	23% ▲
	Property viewings	22% ▲
Supply	New property instructions	13% ▲
Activity	Tenancies commenced	14% ▲
Demand and supply balance	Ratio of new applicants/new instructions (2011)	3.1
	Ratio of new applicants/new instructions (2012)	3.5

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