

## Prime central London total returns in double-digits despite weak rental data

**Rental growth in prime central London remains weak but total investment returns are stronger than other asset classes, says Tom Bill.**

### Results for February 2014

**Rental values fall** -0.4% on a monthly basis in February

Average decline over the three-month period **lowest since mid-2012**

**Total return of 10.6%** beats stock market, gold and hedge funds

**Marylebone total return of 16.2%** leads the way in prime central London

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Rents in prime central London fell -0.4% in February, continuing a downward trend that began two years ago when large-scale job cuts in London's financial sector began to negatively impact the rentals market.

The financial services industry has helped to underpin demand in prime central London and the prolonged nature of its recovery since the financial crisis was underlined this month when Barclays and JP Morgan announced thousands of job cuts each.

The annual decline in February was -2.3%, producing the longest run of annual decreases in rental values since the index began in the mid-1990s.

However, improving UK employment and economic data shows the underlying trend is turning positive and Knight Frank data suggests rental values will catch up.

Rents rose for the first time in 21 months in January and the average decline over the last three-month period is the lowest since the middle of 2012.

It is also worth noting that rental values are at the same level as September 2007, the month the financial crisis hit the UK with the run on Northern Rock and 12 months from values hitting their previous peak.

As figure 1 shows, after recovering strongly from a steep decline caused in large part by the global financial crisis, values have since declined relatively slowly to return to their September 2007 level.

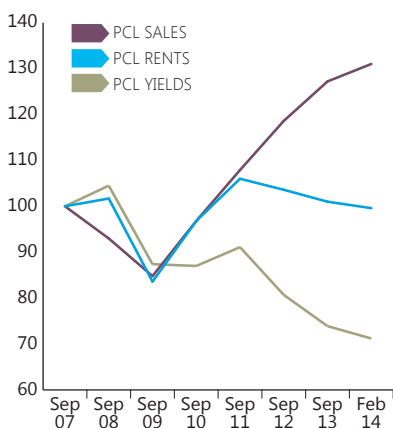
More importantly for investors, rising sales values mean total returns in prime central London remain in double digits, which is ahead of many other mainstream asset classes, despite an average prime central London rental yield of 2.84%.

A total return of 10.6% in the year to February meant prime central London residential property outperformed a resurgent FTSE 100 index, where total returns were 7.5% in the 12 months to the end of January.

Elsewhere, gold prices fell by about a quarter over the same period and even hedge funds, which are supposed to perform well in any market, have delivered a weaker performance in an environment where managers are struggling to second-guess central bankers. The HFRI Fund Weighted Composite Index rose 5.9% in the year to January.

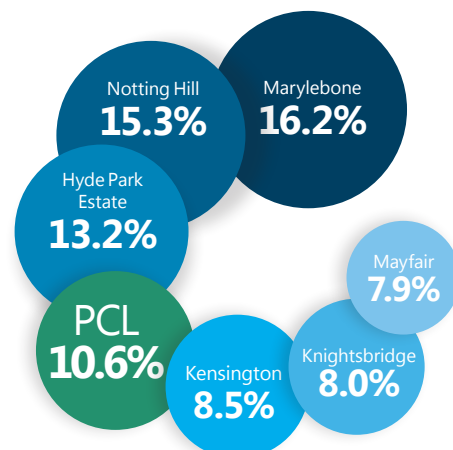
As figure 2 shows, total returns in some areas of prime central London are higher than others in the year to February, with Marylebone leading the way.

Figure 1  
**PCL sales, rents and yields since September 2007 (rebased)**



Source: Knight Frank Residential Research

FIGURE 2  
**PCL total returns**  
Annual returns by market in year to February 2014



Source: Knight Frank Residential Research



**TOM BILL**  
Associate, Residential Research

*"Rising sales values mean total returns in prime central London remain in double digits, which is ahead of many other mainstream asset classes."*

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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 & 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 %
Feb-12	177.3	0.0%	-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%
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%

Source: Knight Frank Residential Research

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