

LANDLORDS AND TENANTS HEDGE THEIR BETS IN PRIME CENTRAL LONDON AS ELECTION LOOMS

The uncertainty that has dampened demand in the sales market is curbing activity in the lettings market though the medium-term outlook is positive, says Tom Bill

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Rental values rose 0.2% in February, which matched an increase in January

Annual growth was 4%, which was the highest level in more than three years

Caution dominated the market ahead of the general election, leading to low stock levels in some areas

Anecdotal evidence to suggest some tenants are exploring right to buy options to hedge against political uncertainty

Record global stock market performance suggests a positive medium-term outlook



TOM BILL

Head of London Residential Research

"There is anecdotal evidence to suggest tenants have explored the 'try-before-you-buy' option in order to hedge against short-term political uncertainty"

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Rental values in prime central London continued their recovery in February, recording their twelfth consecutive month without a decline.

An increase of 0.2% matched the rise in January and took annual growth to 4%, which was the highest level in more than three years.

As May's general election approaches, there is a degree of uncertainty in the sales market that has dampened activity due to the potential of a 'mansion tax' on properties worth more than £2 million.

It has benefitted the lettings market to some extent as a small but growing number of buyers and vendors hedge their bets on the outcome of the election and move into the rentals market.

However, the dominant mood in the prime central London lettings market in February was also one of caution as election campaigning gathered pace, which resulted in low stock levels in some areas.

In higher-value price brackets, the mood of caution has led some landlords and tenants to explore option-to-buy clauses in tenancy agreements when it is mutually beneficial.

Though not prevalent, there is anecdotal evidence to suggest tenants have examined the 'try-before-you-buy' option in order to hedge against short-term political uncertainty, enabling them to initially rent and buy once there is greater clarity surrounding the outcome of the election.

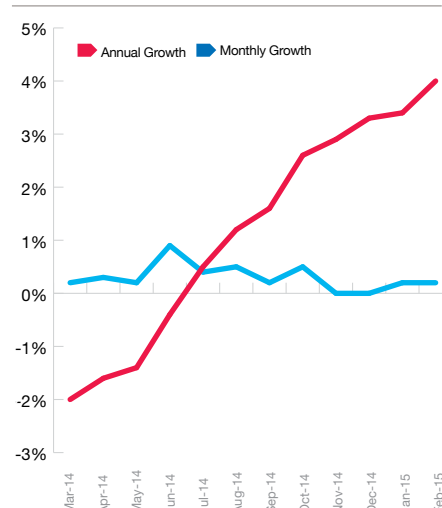
Despite the hesitancy, there are grounds for optimism, including the fact new tenant registrations, viewings and the number of tenancies agreed remain strong.

The buoyancy of world stock markets in February is also likely to underpin demand, as figure 2 shows.

The performance of the prime central London rental index has broadly tracked global stock markets in recent years and the current record levels being set, including the FTSE100, indicate the positive upwards momentum will continue.

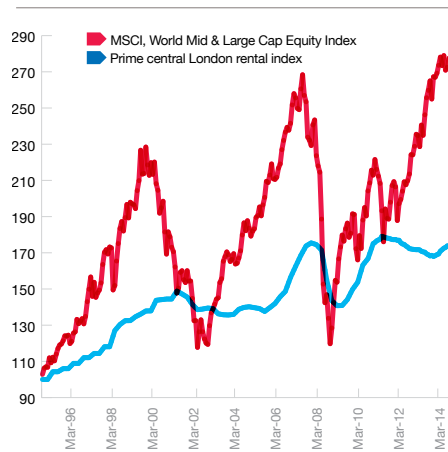
The recent strong performance is linked to indications from the Federal Reserve that it will not rush to raise interest rates, the low oil price and the agreement between Greece and the euro zone, among other factors.

FIGURE 1
Twelve months in positive territory



Source: Knight Frank Residential Research

FIGURE 2
Prime central London rental values and global stock market performance (rebased to 100)

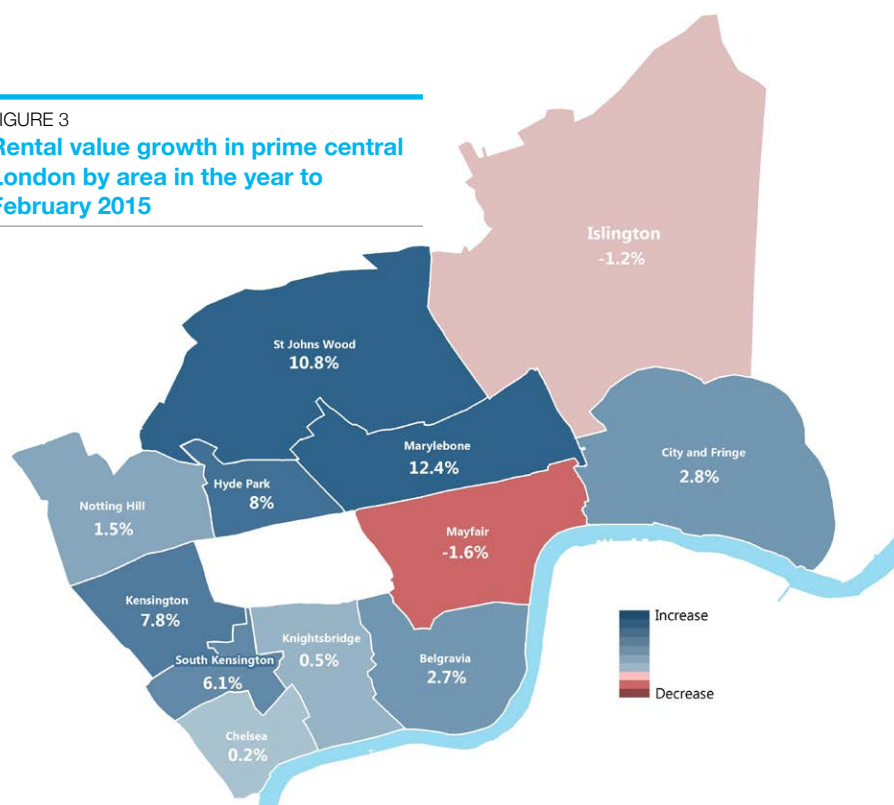


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3

Rental value growth in prime central London by area in the year to February 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
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%
Jan-15	174.3	3.4%	1.5%	0.3%	0.2%
Feb-15	174.7	4.0%	1.2%	0.5%	0.2%

Source: Knight Frank Residential Research

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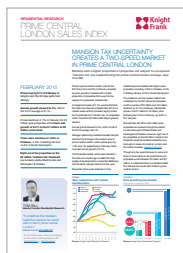
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