

Return to growth forecast in London's prime rental market

Despite a further fall in average prime central London rents in January, an improved outlook for employment and business sentiment should provide landlords with better news in 2013, says Liam Bailey.

Results for January 2013

Rents in prime central London fell 0.1% in January

Kensington was the only area to report a monthly increase in rental values, at 0.9%

Applicant numbers were 23.2% higher year-on-year in the three months to January

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While our monthly change figure for January confirms a continuation of the decline in prime central London rents seen during the second half of 2012, there are positive signs which indicate a more stable market for 2013. The 0.1% decline in January, although an improvement on the -0.5% recorded in December, represents the seventh consecutive month of decreases.

As we have noted previously, weakening job prospects in the financial service sector played their part in creating the conditions for a fall in rents during 2012 and if we look at the latest data from Morgan McKinley, the specialist City recruiter, it would appear the outlook remains bleak, with the number of job vacancies in the financial sector down 24% in December compared to the previous year.

However, while the employment figures suggest that the City economy is struggling to gain traction, London's long-term investment appeal can be seen by the recent growth of the technology and media (TMT) sectors. According to Knight Frank's latest [Central London Quarterly](#), TMT accounted for almost 30% of all office take-up across central

London in 2012, a trend that should ultimately serve to increase tenant demand.

While rents remain under pressure, activity metrics provide a more positive view of the market. Rental applicant numbers were up 23.2% year-on-year in the three months to January, although, as has been the case in recent months, the demand was strongest in the sub-£1,000 per week bracket. New instructions were 21.1% higher over the same period.

Across prime central London rents were either flat or declining in all areas with the exception Kensington. Rents in this area increased by 0.9%, the first time in ten months that rents increased. At the other end of the scale, average rents in St John's Wood declined 1.2%, compounding the 9.7% decline seen in 2012.

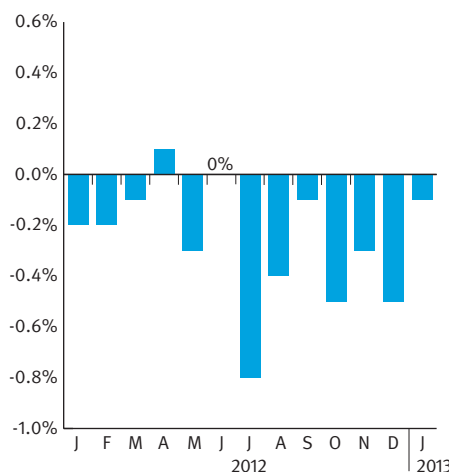
Despite this, our view, informed by a positive outlook for employment and business sentiment, is that rents in [prime central London will increase](#) by 1% this year, before posting growth of 3%, 5%, 3.9% and 3.9% in the years to 2017.

"Despite the difficulties being experienced in the central London economy, our view is that rents in prime central London will increase by 1% this year."



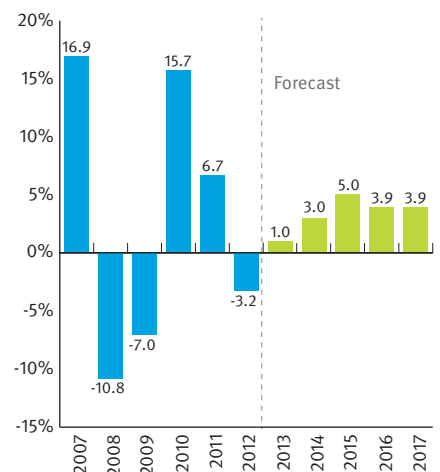
Liam Bailey, Global Head of Residential Research

Figure 1
Monthly growth
Prime central London average residential rental change



Source: Knight Frank Residential Research

Figure 2
Annual and forecast price growth for prime central London rents



Source: Knight Frank Residential Research

RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX



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	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 December 2011	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%
	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%	

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