

RENTAL VALUE GROWTH HITS THREE-YEAR HIGH IN PRIME CENTRAL LONDON

The rental market recovery in prime central London continued in January as corporate demand grew and the upcoming general election cooled demand in the sales market, says Tom Bill

JANUARY 2015

Rental values rose 0.2% in January, marking an eleven-month run without a fall

Annual growth increased to 3.4%, the highest level in three years

New prospective tenants, viewings and tenancies all **rose by more than a fifth** in the final quarter of 2014

There is a degree of downwards pressure on rents while inflation remains low, which some landlords are taking on board

Rental yields rose to 2.94%, the highest level in 17 months.

Rental values in prime central London have spent 11 of the last 12 months in positive territory, benefitting from a prolonged period of political uncertainty surrounding the sales market and growing corporate demand.

Rental values rose 0.2% in January, which took the annual increase to 3.4%, the highest rate in three years.

As May's general election approaches, some activity has moved from the sales to the rentals market as buyers await the outcome and more clarity on the likelihood of further property taxation.

However, the shift has only had a limited impact and the lettings market is also benefitting from stronger corporate demand. Budgets are not as high as before the financial crisis but the spending power of many senior executives, in the form of share options, has improved as the stock market recovers.

The number of new prospective tenants rose 24% in the final quarter of 2014 compared to the same period in the previous year. Meanwhile, the number of tenancies started and viewings in the final three months of last

year each rose by more than a fifth compared to 2013, as figure 2 shows.

However, there is still a degree of caution in the market. There is a lack of stock in some areas as potential landlords hesitate over the wider political uncertainties caused by the election. Meanwhile, record low mortgage rates and the fact stamp duty has been reduced for sales below £937,500 will have prevented some from moving from the sales to the lettings market.

A degree of downwards pressure on rents is also expected while inflation remains low. The Retail Price Index fell to 1.6% in December, its lowest level since 2009 and the aftermath of the collapse of Lehman Brothers.

Rises during rent reviews have historically been between 3% and 8%, however some tenants are seeking lower increases given the macro-economic backdrop, something landlords are taking on board rather than risk a void period given the rental market recovery is not yet in full swing.

Rental yields continued their steady climb, rising to 2.94%, the highest level in 17 months.



TOM BILL
Head of London Residential Research

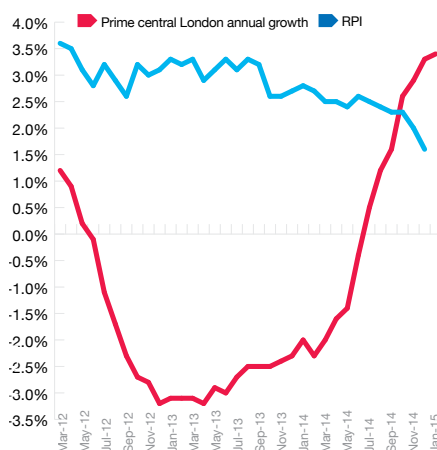
"Some tenants are seeking lower increases given the macro-economic backdrop."

Follow Tom at @TomBill_KF

For the latest news, views and analysis on the world of prime property, visit [Global Briefing](#) or [@kfglobalbrief](#)

FIGURE 1

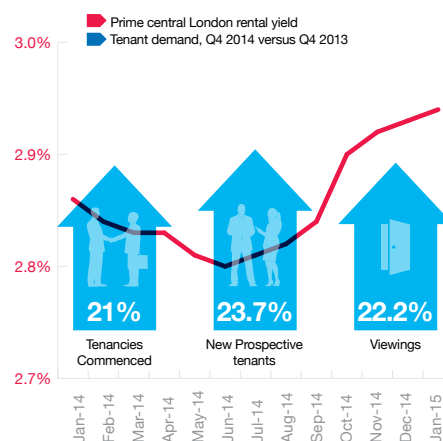
The retail price index dips below rental value growth in prime central London



Source: Knight Frank Residential Research

FIGURE 2

Increased tenant demand pushes up rental yields

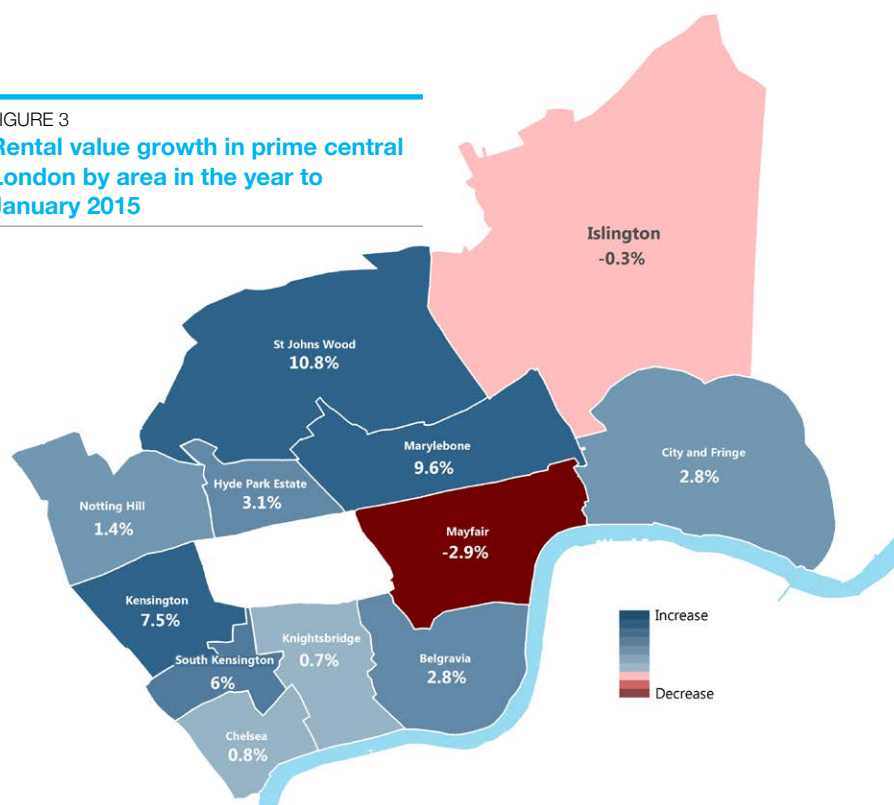


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3

Rental value growth in prime central London by area in the year to January 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
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%
Jan-15	174.3	3.4%	1.5%	0.3%	0.2%

Source: Knight Frank Residential Research

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



The Wealth Report 2014



London Review Winter 2015



W2 report 2014



Prime Central London Sales Index January 2015

Knight Frank Research Reports are available at KnightFrank.com/Research



GLOBAL BRIEFING

For the latest news, views and analysis on the world of prime property, visit KnightFrankblog.com/global-briefing

RESIDENTIAL RESEARCH

Tom Bill

Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

PRESS OFFICE

Daisy Ziegler

+44 20 7861 1031
daisy.ziegler@knightfrank.com



© Knight Frank LLP 2015 - This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.