

MILESTONES PASSED IN RESURGENT PRIME CENTRAL LONDON LETTINGS MARKET

The prime central London lettings market continued its recovery in July, which was more pronounced in the higher price brackets, says Tom Bill

JULY 2014

Annual rental growth returned to prime central London, **rising 0.5% since July 2013**

It was the first time rents have grown over a 12-month period in more than two years.

Rental yields rose for the first time since April 2011, reaching 2.81%

Highest ever number of tenancies agreed by Knight Frank in July

Viewings rose 26% and the number of new prospective tenants increased 17% since July 2013



TOM BILL

Head of London Residential Research

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Three statistics in July underlined how the prime central London rentals market is cementing a recovery that began at the start of this year.

First, rental values grew on an annual basis for the first time since May 2012. Values were 0.5% higher than July 2013 and have grown 1.8% since January.

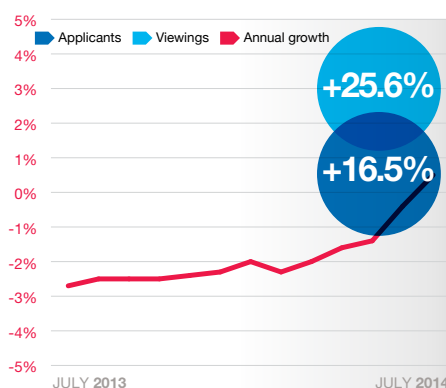
Second, prime central London rental yields rose for the first time since April 2011. The increase was only 0.01% to 2.81% but the significance is that it ended a 38-month period of decline when sales prices grew strongly and rental values fell.

The third indicator is that the number of prime central London tenancies agreed in July by Knight Frank was the highest ever.

The recovery began as signs of life returned to the UK economy and global companies began to expand and relocate more staff to London on larger accommodation budgets.

As a result, the number of viewings has risen 25.6% since July last year and the number of new prospective tenants rose 16.5% over the same period, as figure 1 shows.

FIGURE 1
The lettings market recovery...



Source: Knight Frank Residential Research

To some degree, a reversal of fortune has taken place between the sales and lettings markets. Growth is slowing in the sales market as the general election and an interest rate rise approach.

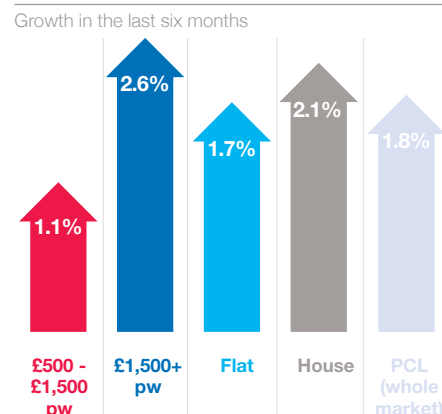
The overwhelming mood in the sales market is one of uncertainty, which is leading buyers to become renters and vendors to become landlords, particularly in the prime and super-prime markets where growth in the sales market has slowed to a greater extent.

As a result, rental value growth has been stronger in the higher price brackets and higher for houses than flats. Values for properties over £1,500 per week have risen 0.8% in the last year and 2.2% since the start of the year.

By contrast, rental values for properties between £500 and £1,500 per week are 0.2% down on last July and have risen 1.9% since January.

Given what is happening in the sales and lettings markets, rental yields should continue to climb steadily in the second half of the year.

FIGURE 2
...where higher price brackets and houses lead the way

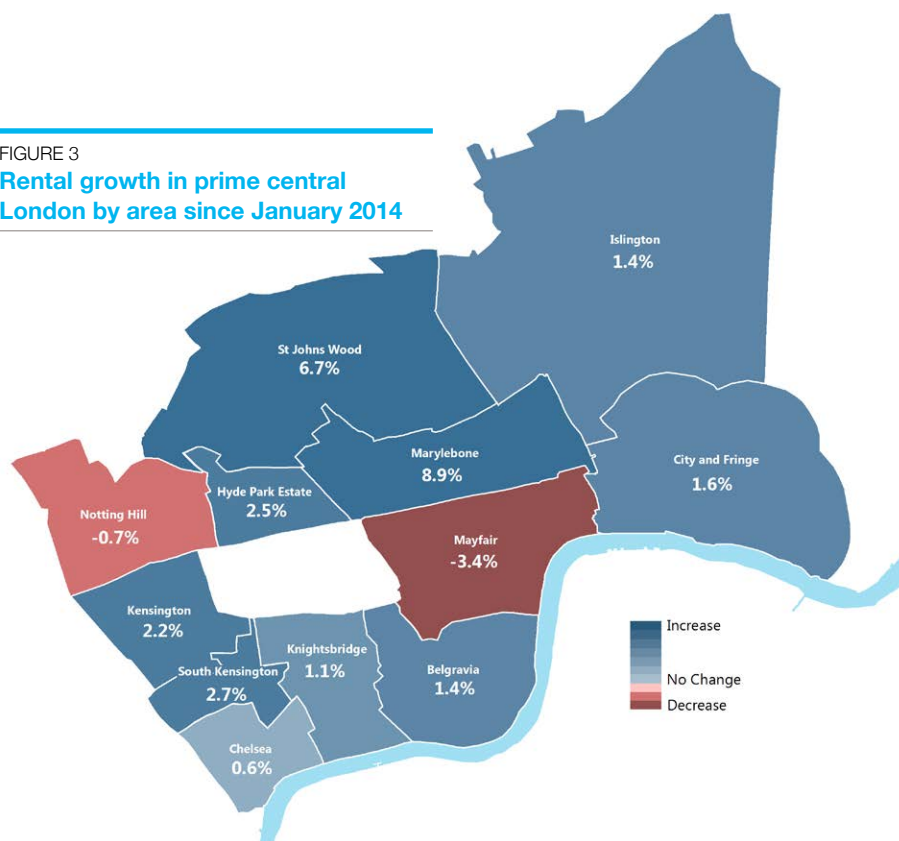


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3

Rental growth in prime central London by area since January 2014



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, Regent's Park, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Canary Wharf, Fulham, Hampstead, Richmond, 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 Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
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%
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%

Source: Knight Frank Residential Research

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