RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON RENTAL INDEX

This report analyses the performance of single-unit rental properties in the second-hand prime central London market between £500 and £5,000-plus per week. For an analysis of the build-to-rent market and the institutional private rented sector in London and the rest of the UK, please see our Private Rented Sector Update report here.

TRANSACTIONS RISE AS RENTAL VALUES DECLINE FOLLOWING BREXIT VOTE

Activity in the prime central London lettings market is stronger than last summer following the vote to leave the European Union, says Tom Bill

JULY 2016

Rental values declined **-3.6% in the year to July**

The number of tenancies agreed in the three months to June **rose 3% versus 2015 and viewings increased 15.8%**

The number of new prospective **tenants fell -6.8% over the same period**

The number of tenancies started via Knight Frank's corporate relocation service **increased 72% in the same period**

Prime gross rental yields were **flat at 3.1%**

Rental values declined -3.6% in the year to July in prime central London, due to higher stock levels and a degree of uncertainty surrounding the EU referendum result.

Indeed, there are parallels between the lettings and sales markets because the Brexit vote has reinforced the existent pricing trends rather alter market fundamentals.

Demand has been relatively flat since the start of the year due to uncertainty surrounding the state of the global economy, particularly in the financial services sector, which contributed towards a slowdown in rental value growth from its last peak of 4.2% in May 2015.

This trend has been compounded by higher levels of supply as stock has moved across from the sales market, with more vendors becoming landlords due to weaker conditions in the prime sales markets.

In the three months to the end of June this year, the number of new rental properties placed on the market rose by 49% compared to the same period last year.

As a result, landlords are reducing asking rents to prevent void periods and tenants are becoming more selective. Properties where the asking rent is perceived as too high are struggling to get viewings.

The referendum result has simply reinforced this dynamic and landlords are increasingly taking a pragmatic approach to asking rents against the background of wider Brexit uncertainty and rising stock levels.

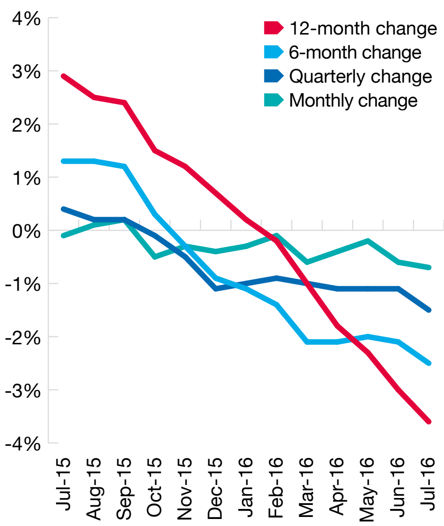
While the number of new registrations of prospective tenants fell -6.8% year-on-year in the three months to the end of June, the number of new tenancies agreed rose by 3% over the same period, with viewings up by 16%.

Despite the three-month decline in the number of new prospective tenants registering, the expectation is that rental volumes will continue to rise over the summer and into the autumn.

The uncertainty ahead of the Brexit vote could be an explanatory factor for weaker registrations, although early signs are positive with no significant announcements that companies are pulling back from relocating

FIGURE 1

Rental value growth in prime central London

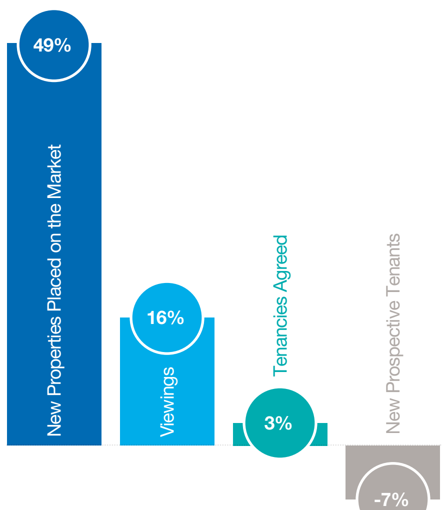


Source: Knight Frank Research

FIGURE 2

Supply levels rise in prime central London

Three months to June 2016 vs 2015



Source: Knight Frank Research

TOM BILL

Head of London Residential Research

"Landlords are taking an increasingly pragmatic approach to asking rents against the background of wider Brexit uncertainty and rising stock levels"

Follow Tom at @TomBill_KF

For the latest news, views and analysis on the world of prime property, visit Global Briefing or @kfglobalbrief staff to London following the referendum.

Indeed, the number of tenancies started across London via Knight Frank's corporate relocation service increased 72% in the three months to the end of June compared to the same period in 2015.

Furthermore, relocation budgets in many cases have risen due to the effects of a weaker Sterling, which means tenants are looking in higher-value areas and at higher-value properties compared to last year. The number of new prospective tenants registering with a budget of £1,500-plus per week increased 11% in the three months to 24 July compared to 2015.

Combined with the fact that rental values have been declining, it means tenants are widening their searches to higher-value areas. For example, senior executives are increasingly able to rent in areas like Mayfair while some young professionals are looking in areas like Kensington rather than east London.

Activity in the £5,000-plus per week super-prime market has been quieter by comparison since the Brexit vote following a relatively strong 12 months. Tenants in this higher-price bracket are typically more discretionary and able to take a longer-term view as the precise implications of the Brexit vote become clearer over the coming months.

FIGURE 3

Rental value growth in prime central London by area in the year to July 2016

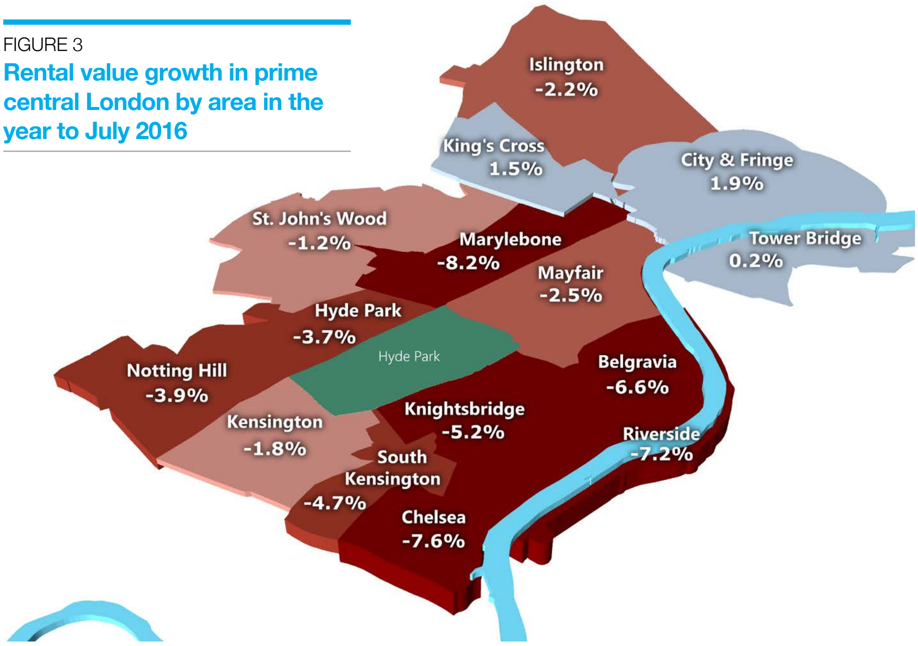


FIGURE 4

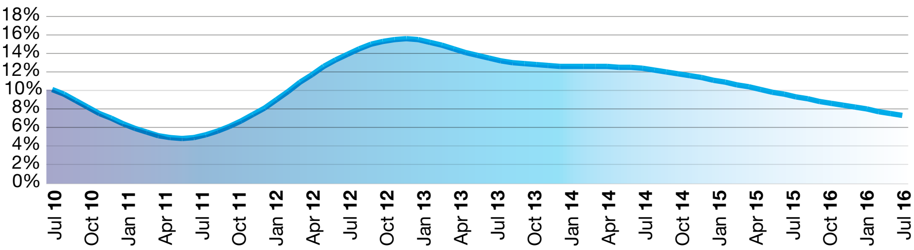
Rental value growth in prime central London by price bracket and property type

Prime Central London Index **170.2**

	£500 - £1,500 pw	£1,500 + pw	Flat	House
1 month	-0.5%	-1.1%	-0.5%	-1.3%
3 months	-1.5%	-1.8%	-1.2%	-2.2%
6 months	-2.5%	-3.2%	-2.2%	-3.3%
1 year	-3.2%	-5.2%	-3.1%	-5.1%
YTD	-2.8%	-3.7%	-2.5%	-3.8%

FIGURE 5

Total annual returns in prime central London Three-year rolling average



DATA DIGEST

The Knight Frank Prime Central London 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, King's Cross, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington, St John's Wood and Tower Bridge. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Riverside*, 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.

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