

ECONOMIC NEWS FROM UK AND US BOOSTS PRIME CENTRAL LONDON LETTINGS MARKET

Rental values in prime central London rose in June and financial markets indicate the recovery will continue, as Tom Bill explains

JUNE 2014

Monthly growth was 0.9% in June, the highest in more than three years

Annual decline of -0.4% will turn positive in July if monthly growth continues

Viewings rose 26% and new prospective tenants increased 36% compared to June 2013

Corporate relocation enquiries to Knight Frank on course for 50% growth in 2014

Buyers and vendors to consider the rentals market as general election looms



TOM BILL
Head of London Residential Research

“The Dow Jones index has been a lead indicator for the prime central London lettings market over the last decade and its current trajectory suggests upwards pressure will remain on rental values.”

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Prime central London rental values rose 1.6% in the first half of 2014, cementing a recovery that began at the start of the year.

Monthly growth was 0.9% in June, which was the highest increase since the index was produced on a monthly basis more than three years ago.

There was a -0.4% decline compared to June 2013 but if rental values continue to rise, annual growth will return in July.

The lettings market has started to rebound as global economies return to health, prompting companies to expand and increase corporate relocation budgets.

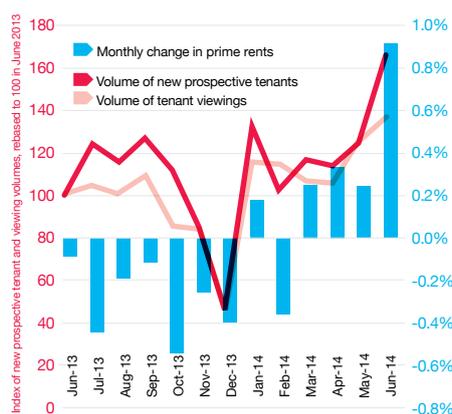
As a result of this more positive sentiment, global corporate relocation enquiries to Knight Frank are on course to be 50% up on last year.

Furthermore, viewings were up 26% on June 2013 and the number of new prospective tenants rose 36% over the same period, as figure 1 shows.

Business confidence across the UK was at its highest in at least 22 years, a survey by Lloyds Banking Group showed in June.

Global stock markets reacted positively

FIGURE 1
Viewings, prospective tenants and prices increase



Source: Knight Frank Residential Research

to the news that the US economy added more jobs than expected in June, cutting unemployment to the lowest rate since September 2008.

As figure 2 shows, the Dow Jones index has been a lead indicator for the prime central London lettings market over the last decade and its current trajectory suggests upwards pressure will remain on rental values.

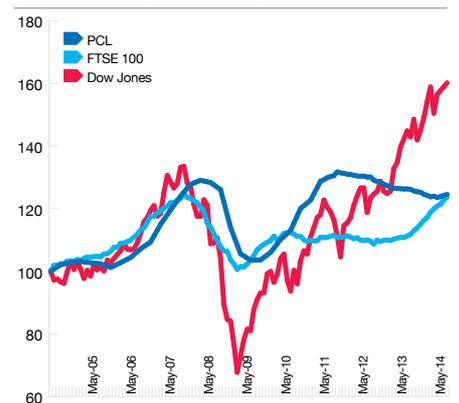
The positive US economic data has started to boost markets like Kensington, which are typically more reliant on financial services and have benefitted as US companies increasingly relocate less senior staff to London.

As the map on page 2 shows, the recovery is at an early stage and the picture is not uniform across prime central London despite the positive underlying trends.

The lettings market is also likely to benefit from slowing demand in the sales market as buyers become more cautious over the pace of price growth and as uncertainty over the outcome of next May's general election intensifies after the summer.

There are already signs the uncertainty is causing buyers and vendors to consider the rental option, as they have in previous cycles.

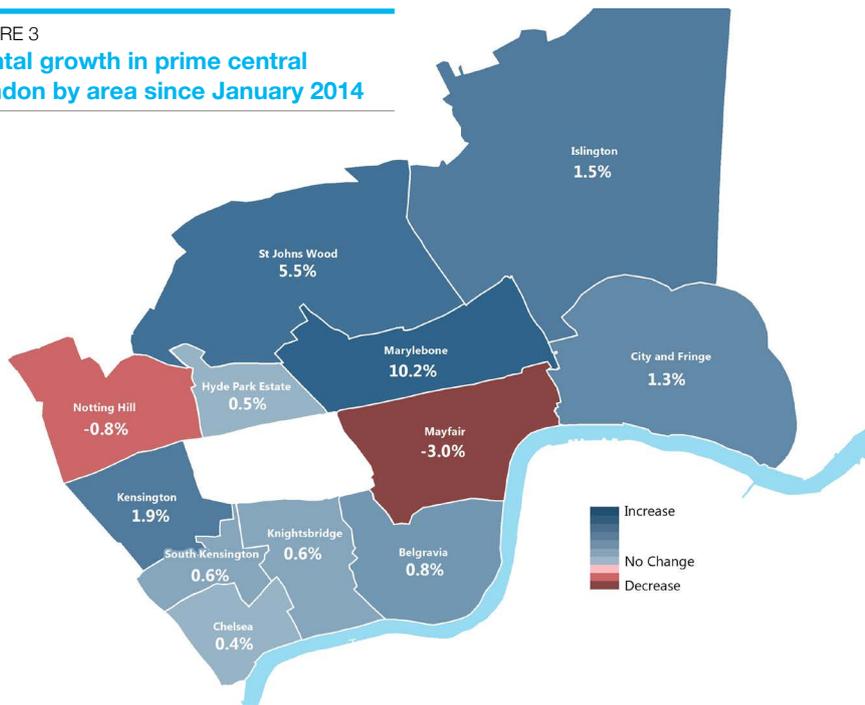
FIGURE 2
Performance of PCL rental index, FTSE 100 and Dow Jones index in the last decade (rebased to 100)



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
Jun-13	171.6	-3.0%	-0.4%	-0.1%	-0.1%
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%

Source: Knight Frank Residential Research

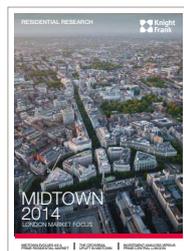
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