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.

A SHORT-TERM BREXIT BOOST FOR SUPPLY AND DEMAND IN PRIME CENTRAL LONDON

A degree of demand has moved from the sales to the rental market but high stock levels will keep rental value growth in check, says Tom Bill

JUNE 2016

Rental values **declined -3% in June 2016**

The number of new prospective tenants registered in June was the **highest since September 2015**

The number of viewings in June was the **third highest on record**

The number of new properties coming onto the market in the **six months to June 2016 rose 24.3% compared to 2015**

The prime gross yield in **June was 3.1%**

Annual rental value growth fell -3% in June, continuing a decline experienced in recent months that has been driven by higher stock levels and uncertainty in financial markets.

Our index data was analysed before the result of the EU referendum but the current sense of uncertainty following the vote is likely to boost rental demand in the short term.

However, any upwards pressure on rents is likely to be countered to some extent by rising stock levels, which will tick up in line with the ongoing uncertainty in the sales market and there is early anecdotal evidence that some vendors are deciding to let their property until more clarity emerges.

However, underlying demand remains strong and the number of new prospective tenants that registered in June was the highest it has been since September 2015 and the number of viewings was the third highest on record. Meanwhile, the number of new tenancies agreed in June 2016 was almost identical to the same month in the previous two years.

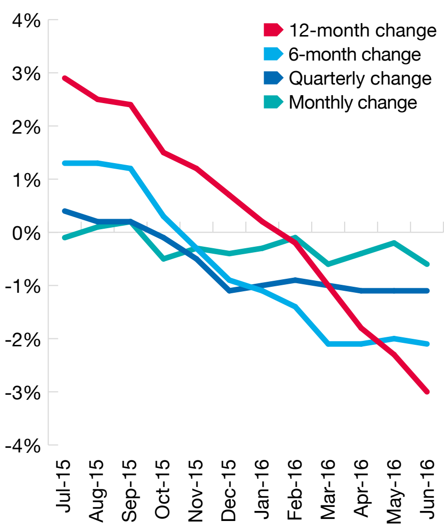
For investors able to see through the current political bout of political uncertainty, there are also grounds for longer-term positivity. The prime gross yield in June was 3.1%, which is markedly in excess of the current record-low yield on a ten-year government bond of about 0.8%, or the so-called risk-free rate.

A mood of indecision in financial markets is also more accentuated than it was before the Brexit vote, which will also cause some tenants, particularly in financial services, to rent for longer.

More broadly, uncertainty over the result of the referendum has been replaced by uncertainty over the more nuanced question of the UK's relationship with Europe and demand will strengthen further as clarity emerges surrounding key negotiating positions.

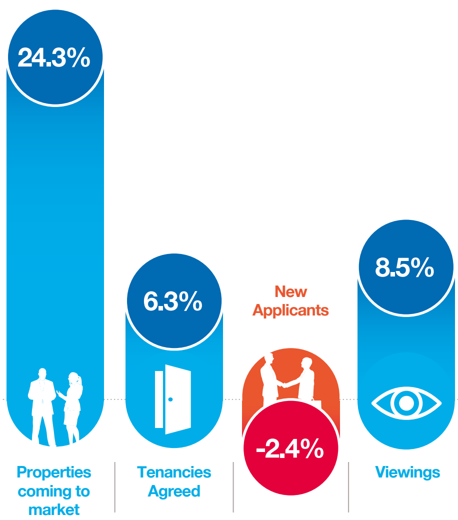
As this process unfolds, it should be remembered that no candidate for prime minister has indicated any willingness to relinquish London's role as Europe's leading financial centre during negotiations with the EU.

FIGURE 1
Rental value growth in prime central London



Source: Knight Frank Research

FIGURE 2
Underlying demand strengthens for rental property
Six months to June 2016 versus 2015



Source: Knight Frank Research

TOM BILL
Head of London Residential Research

"A mood of indecision in financial markets is also more accentuated than it was before the Brexit vote, which will cause some tenants, particularly in financial services, to rent for longer."

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Indeed, Chancellor George Osborne has signalled he may cut corporation tax in a sign that London will strive to remain competitive versus other European cities, both as the key financial and tech market in the continent.

The prospect of an interest rate cut in the UK is also likely to stimulate a degree of activity and the likelihood of further cuts by central banks in other countries, particularly in Asia, will cause global investors to seek the type of higher returns on offer in property. This search for yield will be allied to a favourable currency play due to the current weakness of Sterling.

Meanwhile, other fundamentals that remain unchanged after the referendum include the supply shortfall and projected population growth over the next decade in London, factors that will continue to underpin demand for rental property.

FIGURE 3

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

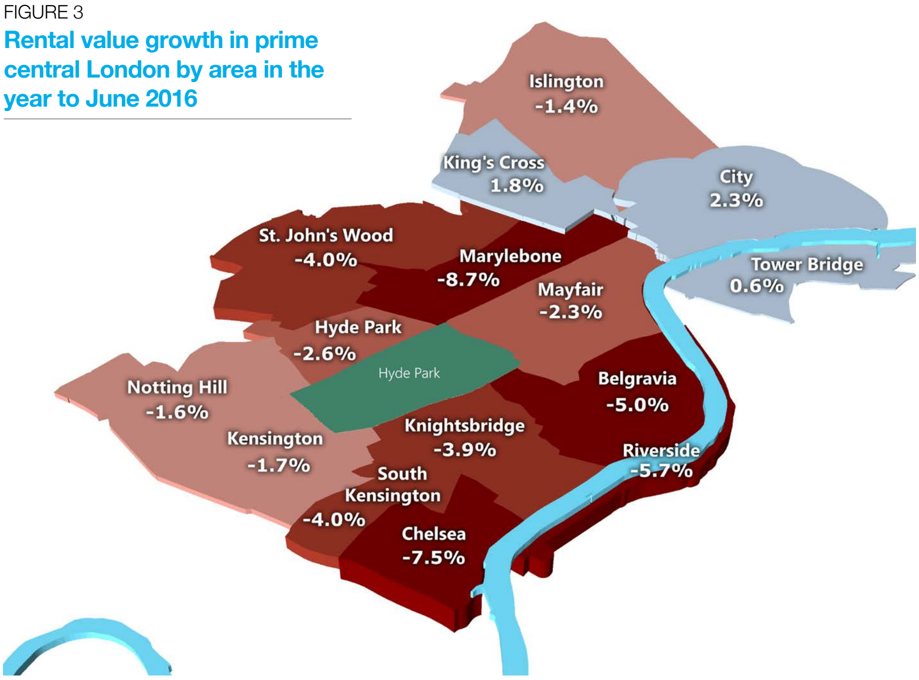


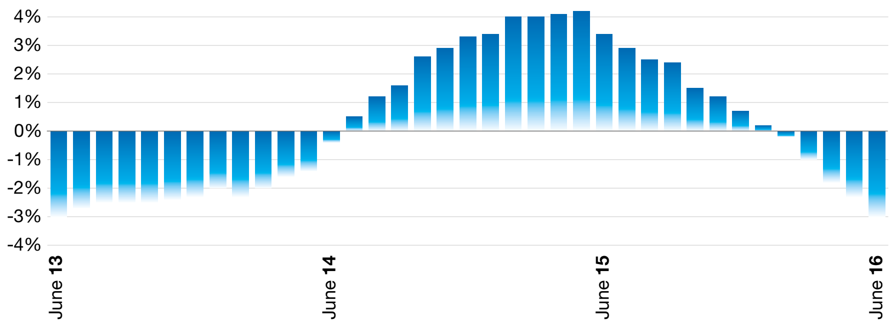
FIGURE 4

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

	£500 - £1,500 per week	£1,500 + per week	Flat	House
1 month	-0.7%	-0.6%	-0.5%	-0.6%
3 months	-1.4%	-1.2%	-1.0%	-1.5%
6 months	-2.3%	-2.6%	-2.0%	-2.6%
1 year	-2.8%	-4.2%	-2.7%	-3.8%
YTD	-2.3%	-2.6%	-2.0%	-2.6%

FIGURE 5

Annual rental value growth in prime central London over the last three years



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.

RESIDENTIAL RESEARCH

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

PRESS OFFICE

Jamie Obertelli
+44 20 7861 1104
jamie.obertelli@knightfrank.com

Harry Turner
+44 20 3861 6974
harry.turner@knightfrank.com

Knight Frank