

## LETTINGS MARKET RECOVERY STRENGTHENS DESPITE HESITATION AHEAD OF ELECTION

Sound economic fundamentals are driving rental values higher in prime central London irrespective of short-term political uncertainty, says Tom Bill

### MARCH 2015

Rental values rose by 0.2% in March as the lettings market recovery continued

Annual growth was 4%, the highest rate in more than three years

Some landlords are hesitant to agree deals because they believe the sales market could strengthen

Number of tenancies, viewings and new prospective tenants up markedly on 2014

Rental yields were 2.92%, an increase on March 2014

Rental values in prime central London rose by 0.2% for the third consecutive month in March, pushing annual growth to 4%, the highest rate in more than three years.

The rental value index is now at the same level it was during the summer of 2012, when London hosted the Olympic Games. Rental values subsequently dipped as the sales market strengthened but growth returned at the start of 2014.

The lettings market benefitted as the UK economic recovery took hold and companies began hiring more staff. Jobs in London's financial services sector rose 17% in February compared to 2014, recruiter Astbury Martin said, citing oil price stability and subsiding concerns over a Greek exit from the euro zone.

However, it is not a clear-cut picture and activity and stock levels have been dampened by the kind of indecision that has affected the sales market.

While some vendors have become landlords in order to wait out the general election to obtain

more clarity around the future political landscape, the overwhelming mood of uncertainty has led to hesitancy as the election draws closer and campaigning steps up.

Some property owners who had considered the rental option have been reluctant to sign two-year tenancy agreements while there is a possibility the sales market could strengthen in the second half of the year, depending on the outcome of the election.

Either way, demand in the lettings market remains strong, as figure 2 shows. In the year to February 2015, the number of tenancies increased by 37% compared with the preceding 12-month period.

Meanwhile, the number of viewings rose 16%, property inspections increased 14% and the total number of new prospective tenants registering grew by 18%.

A stronger lettings market and slower price growth in the sales market resulted in rental yields of 2.92% in March, higher than a figure of 2.83% recorded in the same month last year.



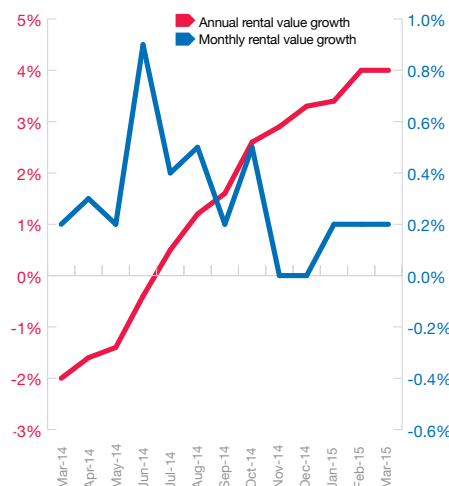
**TOM BILL**  
Head of London Residential Research

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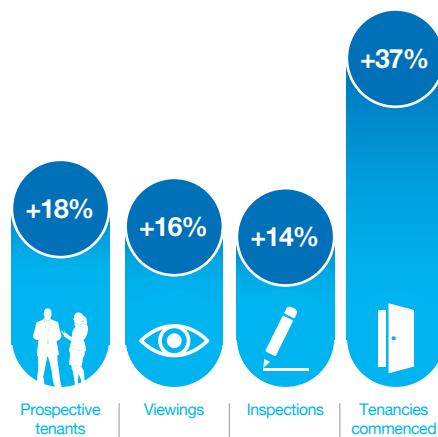
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FIGURE 1  
Annual rental growth hits three-year high



Source: Knight Frank Residential Research

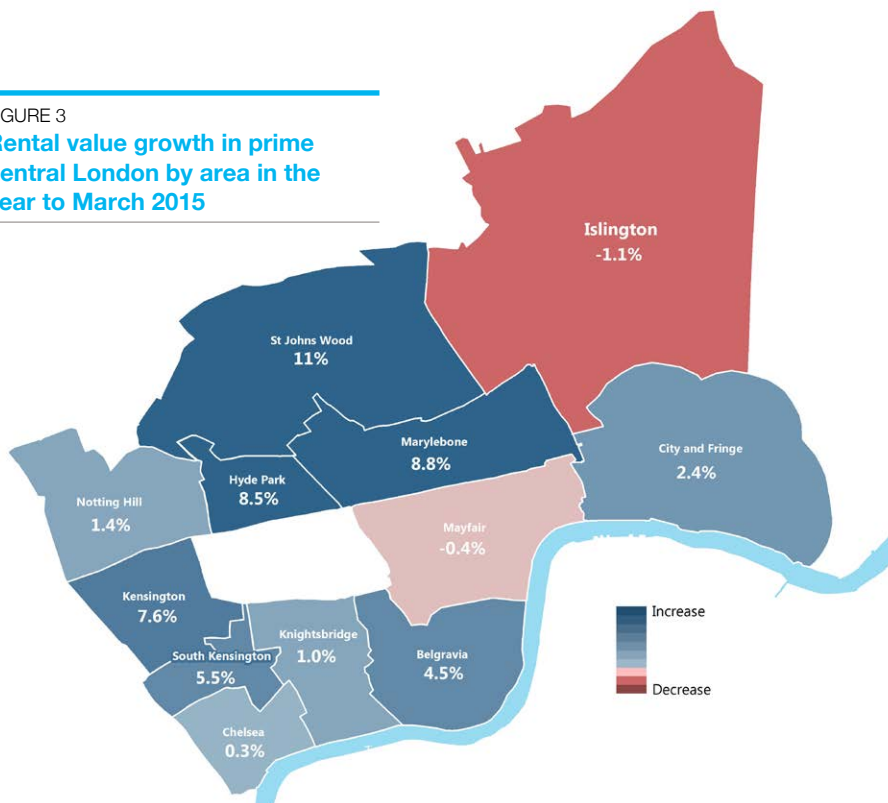
FIGURE 2  
Resurgent demand amid sales market uncertainty



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 March 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
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%
Feb-15	174.7	4.0%	1.2%	0.5%	0.2%
Mar-15	175.1	4.0%	1.2%	0.7%	0.2%

Source: Knight Frank Residential Research

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