



## Prime London residential rents dip for second month in a row

**Liam Bailey examines whether the marginal decline of 0.2% in November points to a sustained reversal of the ever-rising rental levels landlords have become used to over the last two years.**

### Results for November 2011

**Prime London residential rents fell by 0.2% in November**, the second monthly decline

**Rental price growth totalled 0.9% in Q3**, the last full quarterly period

**Despite recent falls, rents are still 27% higher** than the low reached in June 2009

**The £500 to £1,500 per week sector has posted a rental rise of 0.2%** over the past three months, compared to -0.2% for the £1,500+ sector

**Stock volumes are rising**, with annual growth in new instructions running at 12%

**Demand for accommodation is rising**, with new tenant registrations and viewings up by 20% and 41% respectively

The biggest factor behind landlords being able to push rents higher over recent years has been the relative dynamism of central London's economy. We noted last month that this is beginning to weaken as the City enters a period of redundancies.

A weaker London jobs market was confirmed by Morgan McKinsey, the specialist City recruiter, which reported that available jobs across London's financial services sector were 22% lower in October compared to the same month in 2010.

Our key demand and supply indicators (overleaf) are pointing upwards at the moment. Last month we noted an imbalance between the rate of supply growth and growth in demand. To a large extent this has been reversed – with new tenant registrations rising by 20% in the three months to November compared to last year, and new property instructions only rising by 12% over this period.

The ratio of new rental applicants (demand) to new instructions (supply) has risen

from 3.18 to 3.29 over the past year. With demand holding up it would seem that the marginal rental price falls are more related to affordability pressures, with tenants either unwilling or unable to keep bidding rents higher at the current time.

Investors in the prime London residential market have benefited from a market that has delivered strong returns since 2009. Very strong capital value growth – nearly 40% since March 2009 – has been augmented by rising rental levels, and has delivered total annual returns of around 18% over the past two and a half years.

Rather than heralding a new phase of substantial rental declines, our view is that the recent falls will be reversed in the next few months. The fact that demand has remained so healthy, especially in the light of the current weakness in the London and global economy, underpins our view that rents will rise during 2012 as a whole and will see average annual growth of around 4% to 5% over the medium term.

Figure 1  
**Monthly growth**  
Prime central London average residential rental change

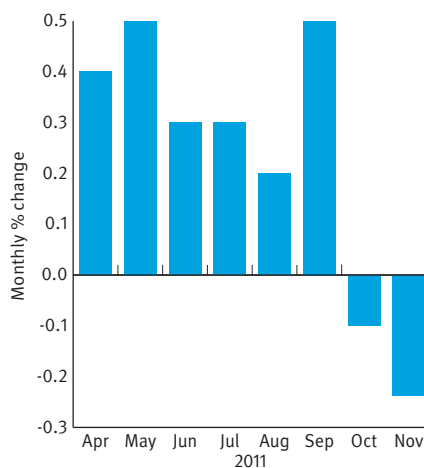
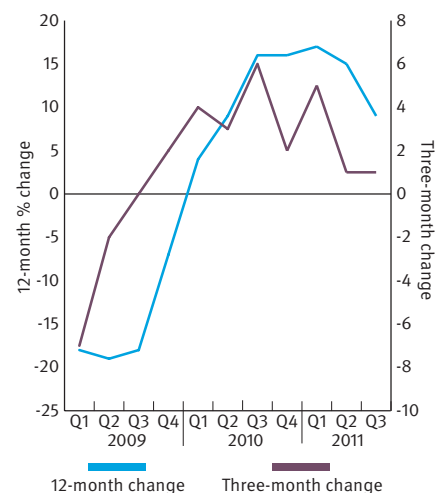


Figure 2  
**Annual and quarterly growth**  
Prime central London average residential rental change



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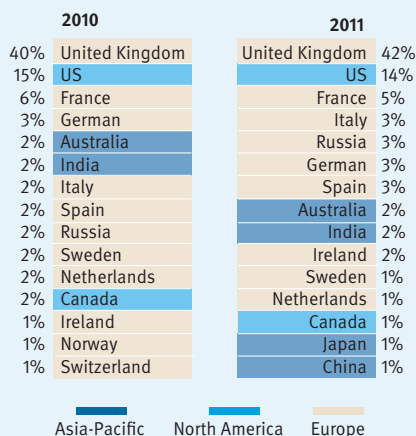
# RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX

**Knight Frank**



## Know your tenant

Top 15 prime London tenant nationalities, 2010 and 2011



Source: Knight Frank Residential Research

## Data digest

The **Knight Frank Prime Central London Rental 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 of London, Hyde Park, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Hyde Park, South Kensington and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

### Knight Frank Prime Central London Rental Index

	KF Prime Central London Index	12-month change %	6-month change %	3-month change %	Monthly change %	
Index quarterly to the end of Q1 2011	Q1 2009	143.5	-18.2%	-16.3%	-7.4%	n.a.
	Q2 2009	140.8	-19.3%	-9.2%	-1.9%	n.a.
	Q3 2009	140.9	-17.8%	-1.8%	0.1%	n.a.
	Q4 2009	144.2	-7.0%	2.4%	2.3%	n.a.
	Q1 2010	149.8	4.3%	6.3%	3.9%	n.a.
	Q2 2010	153.7	9.2%	6.6%	2.6%	n.a.
	Q3 2010	163.2	15.9%	9.0%	6.2%	n.a.
	Q4 2010	166.8	15.7%	8.5%	2.2%	n.a.
	Q1 2011	175.1	16.9%	7.3%	5.0%	n.a.
	Index monthly from April 2011	Apr-11	175.7	n.a.	n.a.	n.a.
May-11		176.6	n.a.	n.a.	n.a.	0.5%
Jun-11		177.1	15.2%	6.1%	1.1%	0.3%
Jul-11		177.5	n.a.	n.a.	1.0%	0.3%
Aug-11		177.9	n.a.	n.a.	0.7%	0.2%
Sept-11		178.7	9.5%	2.1%	0.9%	0.5%
Oct-11		178.5	n.a.	n.a.	0.6%	-0.1%
Nov-11		178.1	n.a.	0.9%	0.1%	-0.2%

## Key market metrics

Prime central London rental market activity, three months to November 2011 compared to same period last year

<b>Demand</b>	New tenant registrations	20% ▲
	Property viewings	41% ▲
<b>Supply</b>	New property instructions	12% ▲
<b>Activity</b>	Tenancies commenced	10% ▲
<b>Demand and supply balance</b>	Ratio of new applicants/new instructions (2010)	3.18
	Ratio of new applicants/new instructions (2011)	3.49

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