



Prime London residential rents fall for the first time since June 2009

The 0.1% decline in rental levels in October does not herald a downturn in the market, but as we noted last month, after a rise of 27% in two years, a moderation in growth was looming, explains Liam Bailey.

Results for October 2011

Prime London residential rents fell in October, by -0.1%, the first decline in rents since June 2009

Despite last month's fall, rents still rose by 0.6% in the three months to October

Rental growth equated to 0.9% in Q3, the last full quarterly period

Rents have now risen by 27% since the post-crash low in June 2009

Prime London rents still sit near an all time high, and are 2% higher than the previous peak level reached in March 2008

Stock volume are rising, with annual growth in new instructions running at 36%

Demand for accommodation is rising, with new tenant registrations and viewings up by 15% and 31% respectively

London's investment market has delivered strong returns for investors over the past two years. For those brave enough to enter the market in the months immediately after the Lehman collapse two and a half years ago, total annual returns have averaged 18.2% before gearing.

Investment returns have been super-charged by the impact of the weak pound drawing in foreign purchasers; London's safe haven reputation, which has been enhanced by global political and economic turmoil, most notably the Arab Spring and the Eurozone crisis; and London's economic revival following the 2009 recession.

Strong demand from tenants has allowed landlords to push rents higher at each break and renewal date. The critical point underpinning this process has been the strength of the central London employment sector. That strength is being tested by redundancies in several areas of the financial sector. Morgan McKinsey, the specialist City recruiter, confirm that available jobs across London's financial services sector were 22% lower in October compared to the same month in 2010.

While our key demand and supply statistics (provided overleaf) are all pointing upwards at the moment, there is a noticeable imbalance between the rate of supply growth. For example new property instructions are up by 36% in the three months to October compared to the same period last year, but new tenant registrations are higher by only 15% over the same period.

The sharp increase in tenant viewings, rising at twice the rate as new tenant registrations, suggests tenants are more confident about taking their time to view properties and are not feeling rushed into taking the first unit they see.

While our comment last month that "the current steep rise in rents will come to an end during the final quarter of 2011" was prescient, we do not believe that we are about to experience a sharp reversal in rents. We stand by our forecast that 2012 will see positive rental growth, although this will be likely to be capped at 4%-5%, close to annual earnings growth, which we believe is a realistic and sustainable forecast for the medium to long term for the prime London rental sector.

Figure 1
Monthly growth
Prime central London average residential rental change

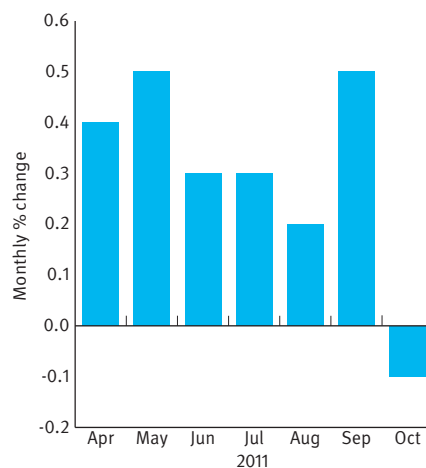
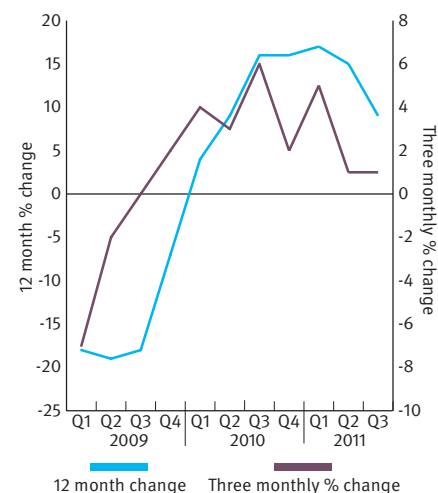


Figure 2
Annual and quarterly growth
Prime central London average residential rental change



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Source: Knight Frank Residential Research

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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

2010		2011	
40%	United Kingdom	42%	United Kingdom
15%	US	14%	US
6%	France	5%	France
3%	German	3%	Italy
2%	Australia	3%	Russia
2%	India	3%	German
2%	Italy	3%	Spain
2%	Spain	2%	Australia
2%	Russia	2%	India
2%	Sweden	2%	Ireland
2%	Netherlands	1%	Sweden
2%	Canada	1%	Netherlands
1%	Ireland	1%	Canada
1%	Norway	1%	Japan
1%	Switzerland	1%	China

Asia-Pacific North America Europe

Source: Knight Frank Residential Research

Key market metrics

Prime central London rental market activity, 3 months to October 2011 compared to same period last year

Demand	New tenant registrations	15% ▲
	Property viewings	31% ▲
Supply	New property instructions	36% ▲
Activity	Tenancies commenced	2% ▲

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 monthly 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%

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