RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank

PRIME CENTRAL LONDON LETTINGS DEMAND DIPS AS GLOBAL ECONOMY REMAINS VOLATILE

As global companies curb costs, demand for rental property has fallen in recent months, says Tom Bill

October 2015

Annual rental value growth slowed to 1.5% after peaking at 4.2% in May this year

Rental values fell -0.5% in October, the steepest decline in two years

The number of tenancies agreed in September was -12% lower than the same month in 2014

Average prime gross rental **yields were flat at 2.95%**

Macro View: London's status as a global financial centre

TOM BILL
Head of London Residential Research

"Advertising giant WPP, whose performance is a barometer of how much companies are either cutting costs or spending, said in October firms were feeling risk-averse due to geo-political concerns"

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It has been a year of two halves for the prime central London lettings market.

Annual rental value growth peaked at 4.2% in May, the month of the general election, as demand transferred from the sales market.

The cause was uncertainty around property taxation and increased rates of stamp duty mean it remains a live issue, particularly in the super-prime £5,000-plus per week price bracket. However, anxiety around the global economy has dampened demand since the summer.

The uncertainty has centred on events in China, which has caused companies to curb relocation budgets and recruitment plans. The falling oil price has also impacted sentiment among energy companies.

Advertising giant WPP, whose performance is a useful barometer of how much companies are either cutting costs or spending, said in October firms were feeling risk-averse due to geo-political concerns. Rival Publicis said there had been an "unusually large" number of clients postponing or cancelling campaigns.

Adding to the sense of a weaker global economy, speculation has grown that the European Central Bank is likely to extend or increase its quantitative easing programme in December in order to stimulate inflation.

Against this backdrop, demand for prime rental property has slowed.

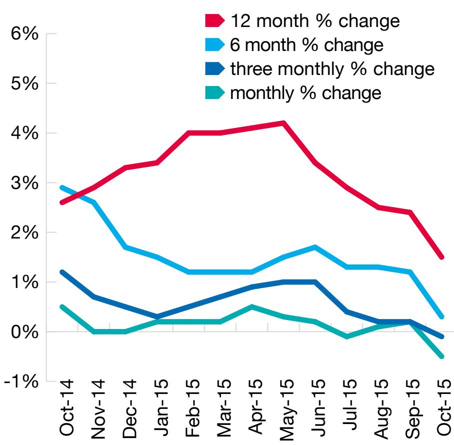
Rental values in prime central London fell by -0.5% in October, the steepest monthly decline in two years. The largest monthly drops were -2% in South Kensington and -1.2% in Chelsea, two areas where demand has been traditionally strong among financial services tenants.

Annual rental value growth slowed to 1.5% in October, the lowest level since August 2014, and average prime gross rental yields were flat at 2.95%.

While the number of new prospective tenants rose 2% in September compared to the same month last year, the number of tenancies agreed was -12% lower.

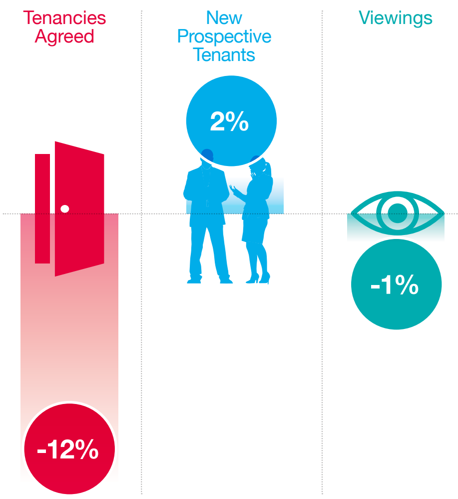
However, despite the near-term uncertainties, the UK economy is performing strongly and the longer-term outlook is positive. As we discuss in the Macroview section on page 2, the author of the closely-watched Z/Yen Global Financial Centres Index report said London will remain one of the most attractive places on earth to do business.

FIGURE 1
Rental value growth in prime central London



Source: Knight Frank Residential Research

FIGURE 2
Lettings activity slows in prime central London



Source: Knight Frank Residential Research

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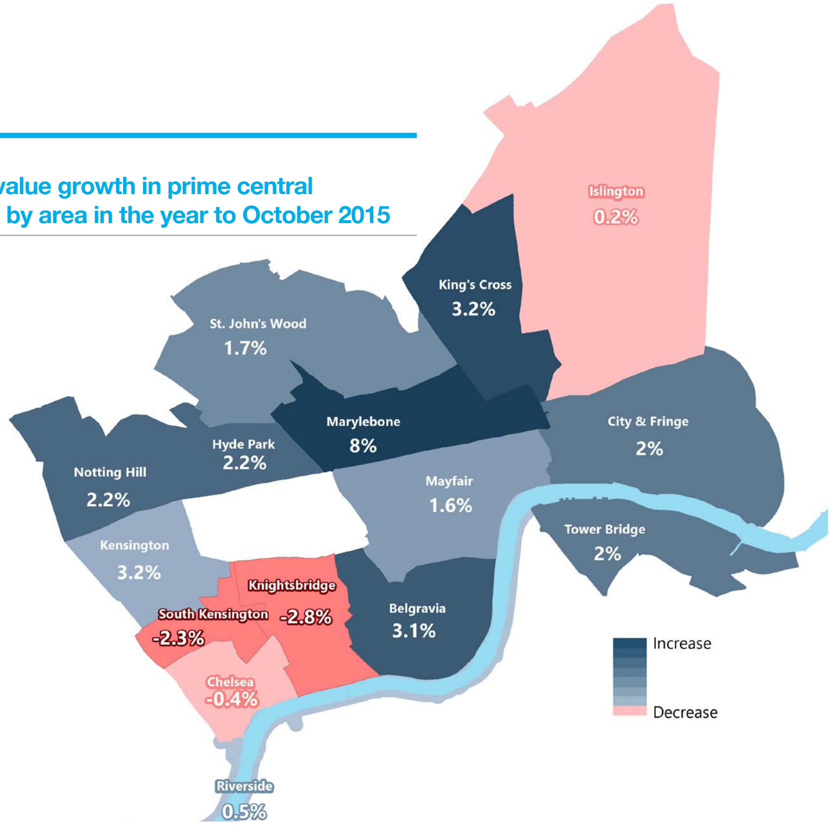
FIGURE 3
Rental value growth in prime central London by area in the year to October 2015



DATA DIGEST

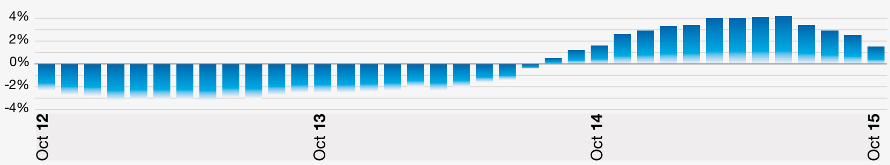
The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. '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.

THE MACRO VIEW OCTOBER 2015

Prime Central London Index | **176.4**

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



Chinese President Xi Jinping told the UK it had an important role to play in a united European Union during his state visit in October.

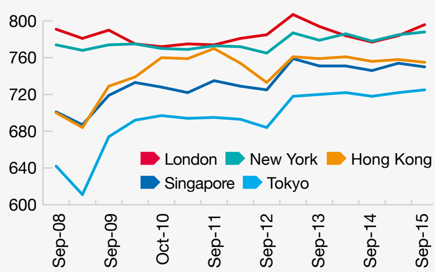
The message suggests he wants the UK to vote to stay in the European Union and flagged it as one of the near term risks London faces.

In this case the messenger was equally as important and highlights a major opportunity for London in the shape of Chinese investment.

The merits of London as a place to do business, which has a direct knock-on effect for the prime sales and lettings markets, has become a live issue in recent weeks. HSBC is reviewing whether to keep its headquarters in London, having cited risks including the EU referendum and the bank levy.

Global Financial Centres Index

(score out of 1,000)



Despite this uncertainty, London regained top spot in the closely-watched Z/Yen Global Financial Centres Index report in September as Chinese jitters hit Asian cities and a majority Conservative government in the UK reduced the risk of further taxation.

Speaking to Knight Frank, lead author and co-creator of the report Mark Yeandle said the referendum risk needs to be seen in context.

"It would take an awful lot to happen over an awfully long period of time for London to lose its liquidity as a major and established financial centre," he said. "Even if the UK were to leave the EU, you won't suddenly have a mass exodus of people."

"Some of the big European banks may eventually repatriate a chunk of their staff but the US banks will still want a European centre and I can't imagine that changing from London," he said. "London won't fall out of the top five, it will never be that catastrophic."

Yeandle added that China would play a key role in heightening the future appeal of London as a place to do business. "Will London become one of the world's major trading centres for the Chinese currency? Clearly, the answer is yes."

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