

## Rental declines start to bottom out in prime central London

Sentiment in the prime central London rental market is starting to catch up with a more positive economic outlook, argues Tom Bill.

### Results for March 2014

Rents in prime central London rose 0.2% in March

Quarterly rise of 0.1%, first three-month increase since November 2011

Annual decline falls to 2%, the joint lowest figure since August 2012

Majority of Knight Frank offices reported rental rises for first time in more than 18 months

Total returns over the last 12 months of 10.55%

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**TOM BILL**  
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*“The prime London rental market is beginning to reflect a wider sense of optimism surrounding the UK economy.”*

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Rents in prime central London rose for two months out of three in the first quarter of 2014, suggesting a two-year decline may be bottoming out.

The prime central London rental index rose 0.2% in March, which matched a similar rise in January and produced quarterly growth of 0.1%, which is the first rise over a three-month period since November 2011.

Meanwhile, the annual fall declined to 2%, matching the lowest annual figure since August 2012.

It comes against the background of an improving economic picture in the UK, which is starting to boost corporate lettings activity in some areas of prime central London.

As the two charts below show, the prime London rental market is beginning to mirror a wider sense of optimism surrounding the UK economy, in particular the health of the financial sector, which is a key driver of tenant demand.

Figure two shows the results of the Confederation of British Industry (CBI) quarterly business confidence survey, which is completed by chief executives in relation to a series of issues including business

prospects, profitability and employment. A result above zero shows a net positive score.

It has been rising since May 2013, the first month that the U.S. Federal Reserve raised the prospect of tapering its huge economic support programme as signs of life returned to the world's biggest economy.

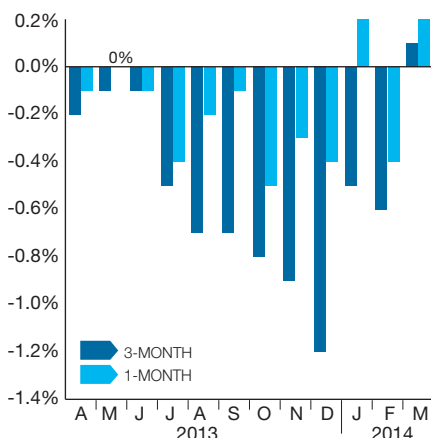
It turned net positive in September 2013 and February this year marked the first time there had been more positive than negative results over a six-month period since summer 2008.

Seven out of the 12 Knight Frank offices reported monthly rental growth in March, the first time more than half have done so in over 18 months.

In addition to a 2.5% rise in Marylebone, there were rises of 0.5% in Kensington, 0.4% in Hyde Park Estate and 0.2% in St John's Wood. Across all areas of London, there was a 0.3% rise for both price bands of £500-£1,500 per week and £1,500 per week and above.

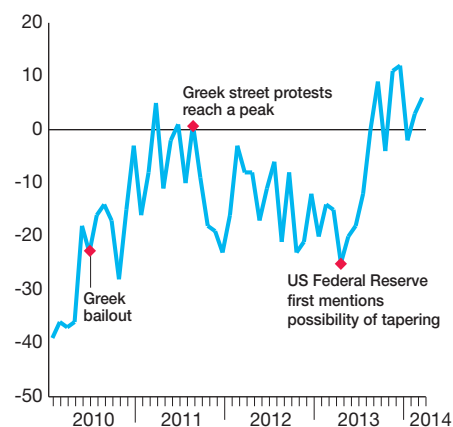
Meanwhile, yield compression is easing as rents edge upwards and capital value growth slows. The index fell 0.2% in March, leaving average gross yields at 2.83%. Total returns last year were 10.55%, which exceeds other asset classes including stocks and bonds.

FIGURE 1  
**Prime central London rental change**



Source: Knight Frank Residential Research

FIGURE 2  
**CBI business confidence survey**



Source: CBI

## 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 & Fringe, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Riverside\*, Wandsworth, Wapping and Wimbledon.

\* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to include 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 Rental Index

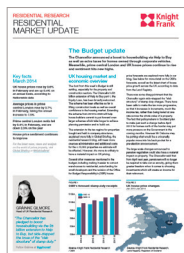
	KF Prime Central London Index	12 month change %	6 month change %	3 month change %	Monthly change %
Mar-12	177.3	1.2%	-0.8%	-0.4%	-0.1%
Apr-12	177.3	0.9%	-0.7%	-0.2%	0.1%
May-12	176.9	0.2%	-0.7%	-0.3%	-0.3%
Jun-12	176.9	-0.1%	-0.6%	-0.2%	0.0%
Jul-12	175.6	-1.1%	-1.2%	-1.0%	-0.8%
Aug-12	174.9	-1.7%	-1.4%	-1.1%	-0.4%
Sep-12	174.6	-2.3%	-1.5%	-1.3%	-0.1%
Oct-12	173.8	-2.7%	-2.0%	-1.0%	-0.5%
Nov-12	173.2	-2.8%	-2.1%	-1.0%	-0.3%
Dec-12	172.3	-3.2%	-2.6%	-1.3%	-0.5%
Jan-13	172.1	-3.1%	-2.0%	-0.9%	-0.1%
Feb-13	171.9	-3.1%	-1.7%	-0.7%	-0.1%
Mar-13	171.8	-3.1%	-1.6%	-0.3%	-0.1%
Apr-13	171.7	-3.2%	-1.2%	-0.2%	-0.1%
May-13	171.7	-2.9%	-0.8%	-0.1%	0.0%
Jun-13	171.6	-3.0%	-0.4%	-0.1%	-0.1%
Jul-13	170.8	-2.7%	-0.7%	-0.5%	-0.4%
Aug-13	170.5	-2.5%	-0.8%	-0.7%	-0.2%
Sep-13	170.3	-2.5%	-0.9%	-0.7%	-0.1%
Oct-13	169.4	-2.5%	-1.4%	-0.8%	-0.5%
Nov-13	168.9	-2.4%	-1.6%	-0.9%	-0.3%
Dec-13	168.3	-2.3%	-1.9%	-1.2%	-0.4%
Jan-14	168.6	-2.0%	-1.3%	-0.5%	0.2%
Feb-14	168.0	-2.3%	-1.5%	-0.6%	-0.4%
Mar-14	168.4	-2.0%	-1.1%	-0.1%	0.2%

Source: Knight Frank Residential Research

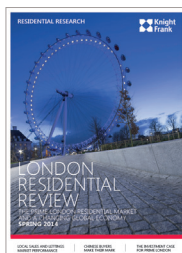
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