RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON RENTAL INDEX

This report analyses the performance of single-unit rental properties in the second-hand prime central London market between £250 and £5,000-plus per week. For an analysis of the build-to-rent market and the institutional private rented sector in London and the rest of the UK, please see our Private Rented Sector Update report
http://www.knightfrank.co.uk/research

RENTAL VALUE DECLINES MODERATE IN PRIME CENTRAL LONDON AS TENANT DEMAND STRENGTHENS

Stronger demand and lower levels of new supply are underpinning rental values, says Tom Bill

June 2017

Rents fell 0.7% on a quarterly basis in June, the lowest three-month decline since November 2015

Rents fell by 4.4% on an annual basis, the smallest decrease since August 2016

The number of tenancies agreed between January and May was **25% higher than the same period in 2016**

Registrations by new prospective tenants rose by **13% in the first five months of 2017 compared to the same period in 2016**

Macroview: Brexit and euro clearing

TOM BILL
Head of London Residential Research

"Annual declines have diminished over the last seven months as a result of strengthening tenant demand and weakening levels of new supply"

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Rental values in prime central London declined 4.4% in the year to June, which represented the smallest annual decrease since August 2016.

Annual declines have diminished over the last seven months as a result of strengthening tenant demand and weakening levels of new supply.

The quarterly figure showed rents falling -0.7%, which was the lowest three-month decline recorded since November 2015. Meanwhile, rental values fell 1.4% in the first half of 2017, which was the lowest six-month fall registered since January 2015.

The supply of new properties to rent grew notably in 2016 as a result of uncertainty surrounding the impact of higher rates of stamp duty on price growth in the sales market, meaning some potential vendors opted to let their properties.

The number ofnew available rental properties in prime central London grew 29% between January and May 2016 compared to 2015, an analysis of Knight Frank data shows.

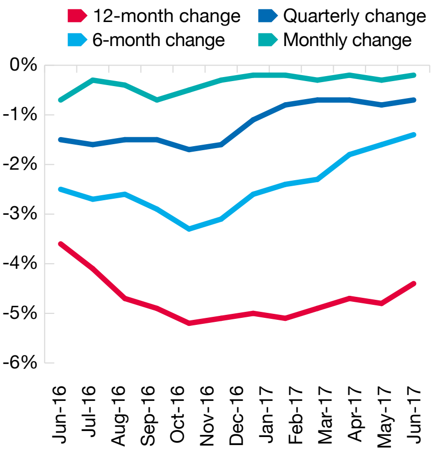
However, this trend is reversing for several reasons, including the fact that demand is strengthening in the sales market as higher rates of stamp duty are factored into asking prices.

Between January and May 2017, there was a 7% fall in the number of new lettings properties placed on the market. In a sign that this trend is gathering pace, the like-for-like decline recorded in the three months to May 2017 was 17%.

Anecdotally other reasons behind the fall in new lettings properties include higher levels of taxation faced by landlords, which have conspired with the recent fall in rental values to reduce the viability of some more highly-geared investments.

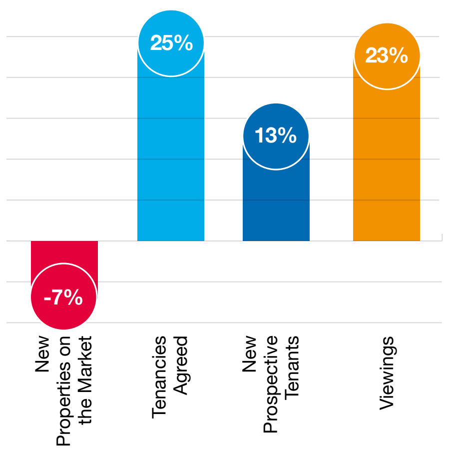
Meanwhile, demand continues to strengthen, a trend that is more marked below £1,000 and above £5,000 per week, the results of this trend are illustrated in figure 3.

FIGURE 1
Rental value performance in prime central London



Source: Knight Frank Research

FIGURE 2
Demand rises as supply falls
Jan-May 2017 vs Jan-May 2016



Source: Knight Frank Research

MACROVIEW | BREXIT AND EURO CLEARING

The European Union has pulled back from a confrontation with the UK over the relocation of euro clearing operations away from London.

London handles hundreds of billions of pounds' worth of euro clearing trades every day and tens of thousands of jobs in the city are linked to this part of the financial services industry.

Recently there have been more conciliatory messages from both sides about what will happen to euro clearing after Brexit, with the early focus being on what level of oversight the European Central Bank will have over key euro clearing operations in London.

Any initiative to increase the regulatory supervision of the ECB would be in line with what currently happens with U.S. regulators in London. This would avoid the relocation of an important part of the financial services industry to the euro zone, which is something the financial industry is keen to avoid as costs would rise.

As well as the potential impact on jobs, the opening positions taken by both sides in relation to euro clearing will set the tone for wider negotiations regarding a sector that plays an important role driving demand in the sales and rentals markets in prime central London.

Knight Frank's head of lettings Tim Hyatt said there are potentially wider implications for the London housing market given that about half of tenants in prime central London come from the financial services industry.

"Landlords have already had to accommodate a number of significant reforms" he said, citing recent tax changes that have dampened landlord demand. "Any meaningful movement of financial services workers would make a notable difference to the supply/demand balance."

"The number one priority for landlords is speed of let and tenant covenant. The more positive noises on the outlook for euro clearing in London will be welcomed by landlords."

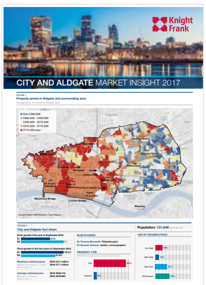
FIGURE 3

Annual rental value growth in prime central London by price bracket and property type, June 2017

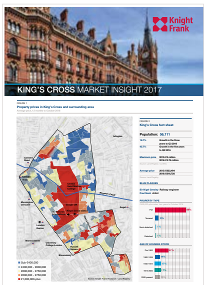
Prime Central London Index **163.9**

	£250 - £500 pw	£500 - £750 pw	£750 - £1,000 pw	£1,000 - £1,500 pw	£1,500 - £2,000 pw	£2,000+ pw	Flat	House
1 month	-0.2%	-0.2%	0.2%	-0.2%	-0.5%	-0.2%	-0.2%	-0.2%
3 months	-0.7%	-0.4%	0.0%	-1.2%	-1.0%	-0.7%	-0.6%	-0.8%
6 months	-1.0%	-0.8%	-0.3%	-2.7%	-2.7%	-1.3%	-1.3%	-1.7%
1 year	-1.8%	-2.5%	-2.5%	-7.1%	-7.1%	-5.3%	-3.8%	-6.0%
YTD	-1.0%	-0.8%	-0.3%	-2.7%	-2.7%	-1.3%	-1.3%	-1.7%

London Review Spring 2017



City and Aldgate market insight 2017

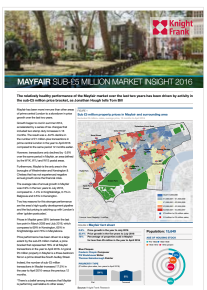


King's Cross market insight 2017

Riverside market insight 2017

Victoria and Westminster Market insight 2017

Martlebone market insight 2016



Mayfair market insight 2016

Prime Central London Sales Index June 2017

DATA DIGEST

The Knight Frank Prime Central London 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, King's Cross, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington, St John's Wood and Tower Bridge. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Riverside*, 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.

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