A supply decline in the prime central London lettings market has begun to have a discernible impact on rental values. Average annual rental values fell 1.5% in the period to March, which was the most modest rate of decline in almost two years.

Furthermore, average rents increased 0.2% over a one-month period, which was the first positive monthly movement since September 2015.

The supply of new lettings properties has declined over the last 12 months due to a combination of factors. The first is that pricing in the sales market has shown increased signs of stability as stamp duty hikes have become more fully absorbed. Political uncertainty means the market is not set for an upswing in the short-term but signs of stability are likely to have caused some property owners to explore the option of a sale.

The other reason behind this trend is the succession of tax changes in recent years, which include a stamp duty surcharge and tighter restrictions around tax relief and other allowances for landlords.

The number of new lettings listings fell 5% year-on-year in the 12 months to February, LonRes data shows. It was the largest such decline since July 2015.

Lettings properties accounted for 71% of all listings in prime central London in July 2017. By February of this year, it was 62%.

Macroview: The Politics of Brexit

As more landlords become vendors, rental values are likely to strengthen, says Tom Bill

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The number of new lettings listings fell 5% in the year to February compared to the previous 12-month period, LonRes data shows. It was the largest such decline since July 2015.

A survey by insurer AXA last year showed almost half of UK landlords planned to leave the private rented sector by 2020. To put that in context, the last English Housing Survey estimated that the private rented sector accounted for 30% of all tenure types in London, a figure Knight Frank estimates could be as high as 50% in Kensington & Chelsea and Westminster.

The same trend is underlined by Rightmove data. Lettings properties accounted for 71% of all listings (sales and lettings combined) in prime central London in July 2017. By February of this year, that number had declined to 62%, as figure 2 shows.

Meanwhile, tenant demand continues to grow, suggesting continued upwards pressure on rents. The number of new prospective tenants that registered in the year to February was 16% higher than the previous 12-month period, Knight Frank data shows. Meanwhile, the number of viewings rose 14% over the same period.
MACROVIEW | THE POLITICS OF BREXIT

Political uncertainty is one of the key factors limiting liquidity and causing uncertainty in prime central London sales and lettings markets.

The finely-balanced Parliamentary arithmetic creates uncertainty over the stability of the government, which is aggravated by Brexit. However, March brought some signs of progress between the UK and EU as both sides agreed a transitional deal.

It is significant because it avoids a so-called ‘cliff edge’ for businesses, which will have 21 months after Brexit to adapt to life outside of the EU. It also creates a sense of momentum that will raise the stakes for any group of MPs who may wish to derail the process.

There has also been a subtle shift in position on the part of the EU in relation to financial services, which is aggravating by Brexit. The worst case scenario is that you lose with this ‘try-before-you-buy’ route,” says Tom Smith, Knight Frank’s head of super-prime lettings. “Demand is resilient due to experience and has a dominant market share in the super-prime market, said Tom. The average length of a tenancy in 2017 was 589 days, which provides a bespoke service to clients with property and corporate tenants and there has been an increase in the amount of refusal to buy at the end of the tenancy.”

The momentum of recent years is still gathering pace,” said Tom Smith, Knight Frank’s head of super-prime lettings. “Demand is resilient due to experience and has a dominant market share in the super-prime market, said Tom. The average length of a tenancy in 2017 was 589 days, which provides a bespoke service to clients with property and corporate tenants and there has been an increase in the amount of refusal to buy at the end of the tenancy.”

The clear message for landlords is that you lose with this ‘try-before-you-buy’ route,” says Tom Smith, Knight Frank’s head of super-prime lettings. “Demand is resilient due to experience and has a dominant market share in the super-prime market, said Tom. The average length of a tenancy in 2017 was 589 days, which provides a bespoke service to clients with property and corporate tenants and there has been an increase in the amount of refusal to buy at the end of the tenancy.”

“A pleasant resolution would not happen out of any selfless benevolence towards the UK, but because an uninterrupted transition out of the EU serves their financial interests,” he said.

FIGURE 3
Rental value growth in prime central London by price bracket and property type

<table>
<thead>
<tr>
<th>Prime Central London Index</th>
<th>162.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>£250 - £500 pw</td>
<td>0.1%</td>
</tr>
<tr>
<td>£500 - £750 pw</td>
<td>0.0%</td>
</tr>
<tr>
<td>£750 - £1,000 pw</td>
<td>0.0%</td>
</tr>
<tr>
<td>£1,000 - £1,500 pw</td>
<td>0.2%</td>
</tr>
<tr>
<td>£1,500 - £2,000 pw</td>
<td>1.4%</td>
</tr>
<tr>
<td>£2,000+ pw</td>
<td>0.1%</td>
</tr>
<tr>
<td>Flat</td>
<td>0.3%</td>
</tr>
<tr>
<td>House</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

1 month 0.1% 0.0% 0.0% 0.2% 1.4% 0.1% 0.3% 0.1%
3 months 0.3% -0.4% -0.4% -0.5% 0.9% -0.1% 0.0% -0.3%
6 months -0.5% -0.9% -0.7% -2.2% -0.4% -0.4% -0.7% -1.2%
1 year -1.2% -1.0% -0.2% -3.9% -1.5% -1.5% -1.4% -1.8%
YTD 0.3% -0.4% -0.4% -0.6% 0.9% -0.1% 0.0% -0.3%