



AUGUST 2019

This report analyses the performance of single-unit rental properties in the second-hand prime central and prime outer London markets between **£250 and £5,000+ 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 <http://www.knightfrank.co.uk/research>

PRIME CENTRAL LONDON

Prime central London index | **165.2**

Annual rental value change | **-0.2%**

Quarterly rental value change | **0.5%**

PRIME OUTER LONDON

Prime outer London index | **171.5**

Annual rental value change | **0.0%**

Quarterly rental value change | **0.2%**

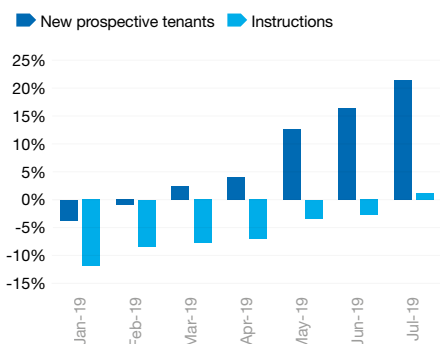
Figure 1 The number of new prospective tenants increased by 22% in the year to July 2019 in prime central and prime outer London, led by increases in north London and in the city fringe for homes up to £1,000pw. Over the same period, the number of new lettings listings grew by 1%. This growing imbalance between supply and demand will continue to exert upwards pressure on rental values.

Figure 2 Rental value growth in prime central London has been broadly flat over the last 12 months, underpinned by the fact demand has grown faster than supply. As average sale prices have declined over the same period, this has led to a rise in yields.

Figure 3 Annual rental value growth in August was positive in lower-value markets across prime London. This was due to the fact that new supply has tightened to a greater degree in lower-price brackets. Vendors in higher price brackets are typically more discretionary and some have opted to let rather than sell until price inflation returns.

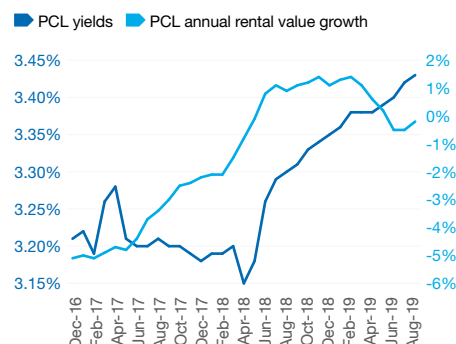
Figure 4 The number of super-prime tenancies agreed in the second quarter of the year was 40, the highest figure for Q2 in more than five years. Demand has been underpinned by uncertainty in the sales market.

FIGURE 1
New demand outpaces new supply
Annualised % change, PCL and POL



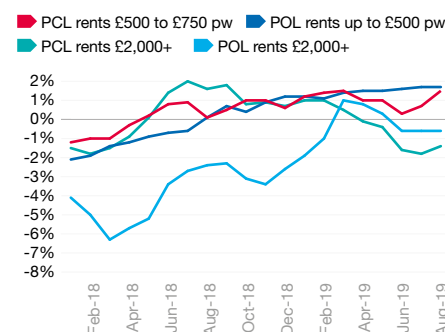
Source: Knight Frank Research

FIGURE 2
Yields rise as rental values hold
Annual % change in rental values, PCL



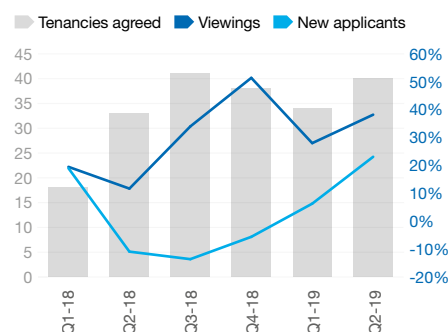
Source: Knight Frank Research

FIGURE 3
Lower-value market outperforms for rental growth
Annual % change



Source: Knight Frank Research

FIGURE 4
Super-prime rental activity surges
Annualised % change for viewings and new prospective tenants, PCL and POL



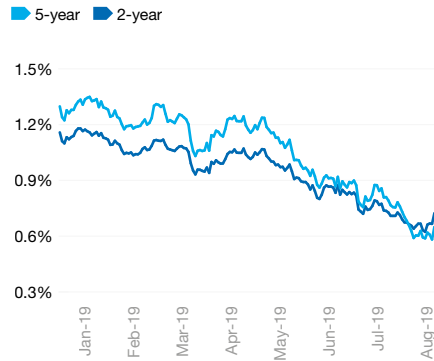
Source: Knight Frank Research / LonRes

ECONOMIC DATA

Figure 5 As a result of political and economic uncertainty, UK five-year swap rates were cheaper than two-year swap rates in August for the first time in ten years. It means the average cost of a five-year fixed rate mortgage has dropped in recent weeks. There have been recent instances of yield curve inversions on government bonds, which has been a leading indicator for previous recessions.

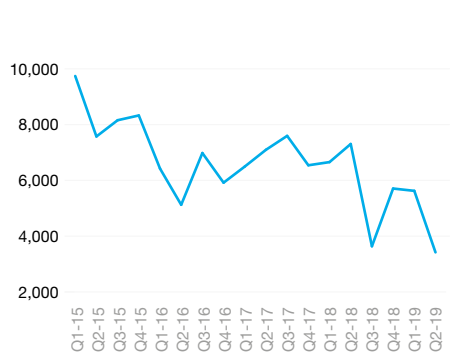
Figure 6 The number of construction starts in London dropped to its lowest level in seven years in Q2 2019, underlining how the supply of housing is likely to remain a key issue in the capital.

FIGURE 5
Five year fixed mortgages get cheaper
Five-year and two-year swap rates



Source: Knight Frank Finance

FIGURE 6
Future housing supply falling
Construction starts, London, schemes with 20+ units



Source: Knight Frank Research / Molior

FIGURE 7
PRIME CENTRAL LONDON Rental value growth by price band, time period and property type

	£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	0.4%	0.3%	0.1%	0.4%	0.0%	0.0%	0.2%	0.1%
3 months	1.2%	0.6%	0.5%	0.4%	0.0%	0.3%	0.4%	0.5%
6 months	1.7%	1.2%	0.3%	0.7%	-0.9%	0.1%	0.6%	0.1%
1 year	2.7%	1.5%	0.4%	-1.2%	-2.3%	-1.4%	0.2%	-1.0%
YTD	2.2%	1.6%	0.4%	-0.1%	-1.5%	0.1%	0.8%	-0.3%

FIGURE 8
PRIME OUTER LONDON Rental value growth by price band, time period and property type

	£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%	0.1%	0.1%	0.2%	0.0%	0.0%	0.1%	0.1%
3 months	0.6%	0.2%	-0.1%	0.2%	-0.3%	0.2%	0.2%	0.2%
6 months	1.2%	0.1%	0.0%	0.5%	0.1%	1.1%	0.4%	0.7%
1 year	1.7%	-0.3%	-0.4%	-0.6%	-1.7%	-0.6%	0.3%	-0.4%
YTD	1.3%	-0.2%	0.3%	0.5%	-0.6%	1.2%	0.3%	0.7%

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: Aldgate & the City, Belgravia, Chelsea, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Riverside, South Kensington, St John's Wood, Tower Bridge and Victoria.

Prime Outer London comprises Barnes, Battersea, Belsize Park, Canary Wharf, Chiswick, Clapham, Dulwich, Fulham, Hampstead, Queen's Park, Richmond, Wandsworth, Wapping and Wimbledon.

RESIDENTIAL RESEARCH



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