

JULY 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+/ 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 | **164.9**

Annual rental value change | **-0.5**

Quarterly rental value change | **0.5%**

PRIME OUTER LONDON

Prime outer London index | **171.2**

Annual rental value change | **0.0%**

Quarterly rental value change | **0.2%**

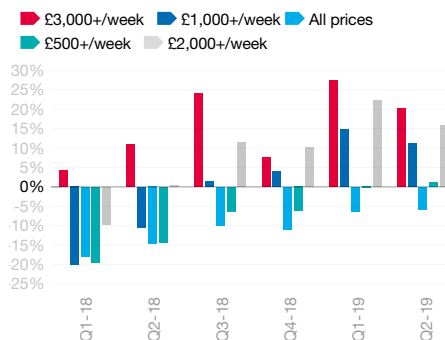
Figure 1 The supply of lettings property has begun to increase in higher price brackets in PCL, putting downwards pressure on average rental values, which fell by 0.5% in the year to July. Some landlords who listed their property for sale in response to tax changes have returned to the lettings market after failing to achieve their asking price.

Figure 2 The ratio of new prospective tenants to new lettings listings rose to 6.8 in the second quarter of 2019. The figure was the highest it has been in more than 10 years and suggests rental values are unlikely to decline by any meaningful amount in the short-term.

Figure 3 Demand continues to build in the prime London lettings markets due to the tenant fee ban, introduced in June, and as some buyers hesitate, choosing to rent, due to political uncertainty. The number of new prospective tenants registering rose by 16.4% in the year to June while the number of tenancies agreed increased by 18.4%.

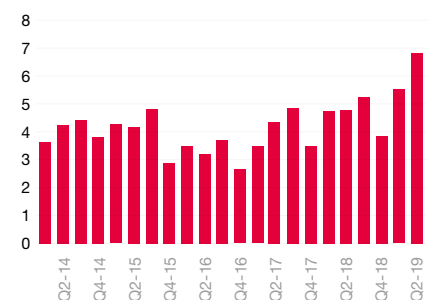
Figure 4 Rental values have responded to this fluctuation in supply levels over the past 18 months. The number of Knight Frank offices in London recording a decline in average annual rental values has increased modestly in recent months, though the overall split remains balanced.

FIGURE 1
Supply increases in higher price bands
Annualised % change, new listings, PCL



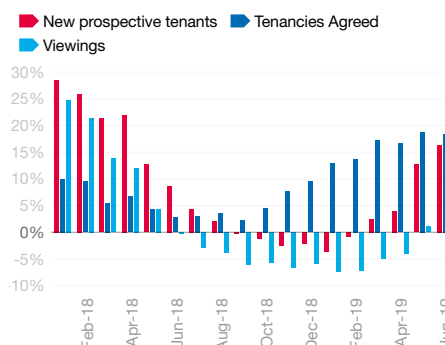
Source: Knight Frank Research / Rightmove

FIGURE 2
Demand rises in relation to supply
New prospective tenants / new listings, PCL and POL



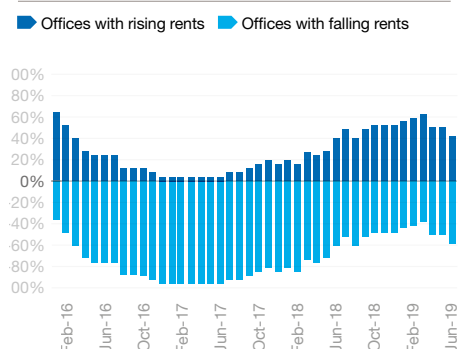
Source: Knight Frank Research

FIGURE 3
Activity rises in the London lettings markets
Annualised % change, PCL and POL



Source: Knight Frank Research

FIGURE 4
Split of areas reporting rising / falling rents
London offices with rising or falling annual rental growth



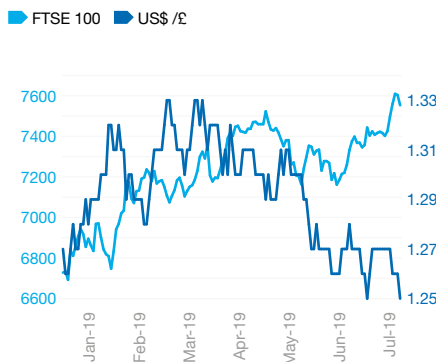
Source: Knight Frank Research

ECONOMIC DATA

Figure 5 The pound has weakened against the US dollar in recent months due to the perceived risk of a no-deal Brexit under the new prime minister. The effective discount for US dollar-denominated buyers in PCL compared to before the vote to leave the EU in June 2016, was 24% at the start of July. The FTSE 100 responded by rising.

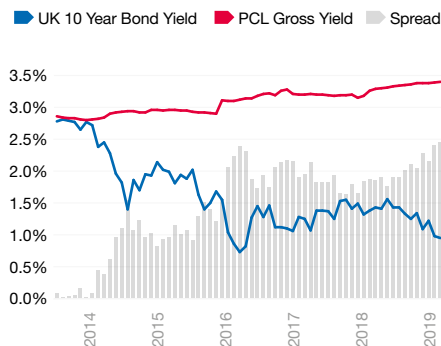
Figure 6 Yields on prime central London property have widened in response to stronger rental values and declining prices. The difference between the PCL gross yield and the benchmark ten-year UK government bond was about 245 basis points in June, the widest it has been in more than 15 years.

FIGURE 5
Stock markets rise on Sterling falls



Source: Knight Frank Research

FIGURE 6
Best relative yield in PCL for 15 years



Source: Knight Frank Research

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%	0.6%	0.1%	0.1%	0.1%	0.4%	0.2%	0.4%
3 months	1.0%	0.7%	0.4%	0.5%	-0.4%	0.5%	0.5%	0.4%
6 months	1.6%	1.0%	0.2%	0.2%	-0.9%	0.0%	0.5%	-0.1%
1 year	2.6%	0.7%	0.4%	-1.3%	-2.9%	-1.8%	-0.1%	-1.4%
YTD	1.9%	1.3%	0.3%	-0.5%	-1.5%	0.1%	0.6%	-0.4%

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%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%
3 months	0.6%	0.0%	-0.2%	0.1%	0.0%	0.4%	0.2%	0.2%
6 months	1.0%	-0.2%	0.0%	0.5%	-0.6%	1.0%	0.2%	0.6%
1 year	1.7%	-0.1%	-0.3%	-0.9%	-1.9%	-0.6%	0.3%	-0.4%
YTD	1.1%	-0.3%	0.1%	0.3%	-0.5%	1.2%	0.2%	0.6%

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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