

PRIME CENTRAL LONDON RENTAL VALUES APPROACH PRE-LEHMAN PEAK

Rental values climb as UK economic recovery strengthens and yields increase by the most in more than three years

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Annual rental value growth was 1.6%, the highest rate in two and a half years

An increase of 0.2% in September took the number of consecutive monthly rises to seven

The rental value index approached its pre-Lehman Brothers peak recorded in March 2008

The high number of new tenancies agreed in September meant the total in the first nine months was 48% higher than 2013.

Rental yields rose to 2.84%, **increasing by the largest amount in more than three years**



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"The rental value index is fast approaching the pre-Lehman Brothers peak recorded in March 2008"

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Rental values in prime central London rose for the seventh consecutive month in September, though at a slower rate than in recent months.

An increase of 0.2% took annual growth to 1.6%, which is the highest rate in two and a half years as the rental market in prime central London continues to recover.

The recovery, which began at the start of the year, comes as the UK economy returns to health after the financial crisis.

Last month, the Office for National Statistics said the country's economy was 2.7% larger in the second quarter of the year compared to its pre-crisis peak. It also revised its second-quarter growth figure higher to 0.9%.

Similarly, the rental value index is fast approaching the pre-Lehman Brothers peak recorded in March 2008. Rental values fell before rising in 2011 to exceed that peak due to a supply squeeze but had been in decline since September 2011 until the start of this year due to the fragile UK economy.

The number of new prospective tenants in September was 22% higher than the same month last year and the total for the first nine

months of the year was 19% higher than the same period in 2013.

Meanwhile, the high number of new tenancies agreed by Knight Frank in September meant the total in the first nine months of the year was 48% higher than 2013 while the number of tenancies commenced was up 55% over the same period.

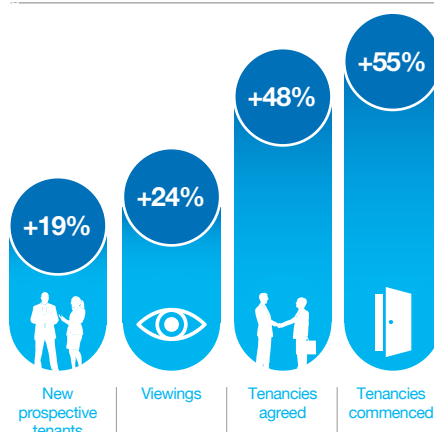
The rentals market will also benefit as the uncertainty of next May's general election dampens demand to some degree in the sales market.

While there is no marked trend of vendors deciding to become landlords and buyers becoming tenants, it is happening to some degree and there are increasing instances of properties being marketed to both the sales and rentals market.

Annual growth for rental values in the £1,500 per week and above category was 1.9% while it was 0.9% for properties below that figure.

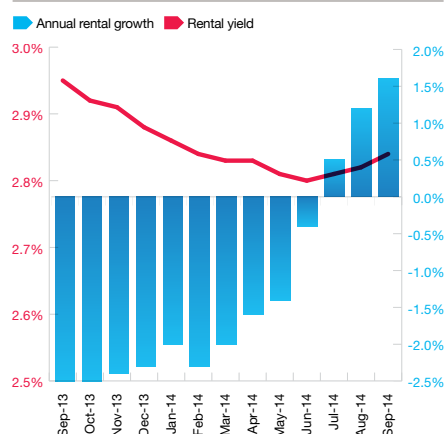
Rental yields also continued their recovery in September, rising from 2.82% to 2.84%. It is not high by historical standards but it was the largest monthly increase in more than three years.

FIGURE 1
The rental market recovery
January to September: 2014 vs 2013



Source: Knight Frank Residential Research

FIGURE 2
Annual rental growth and yields climb

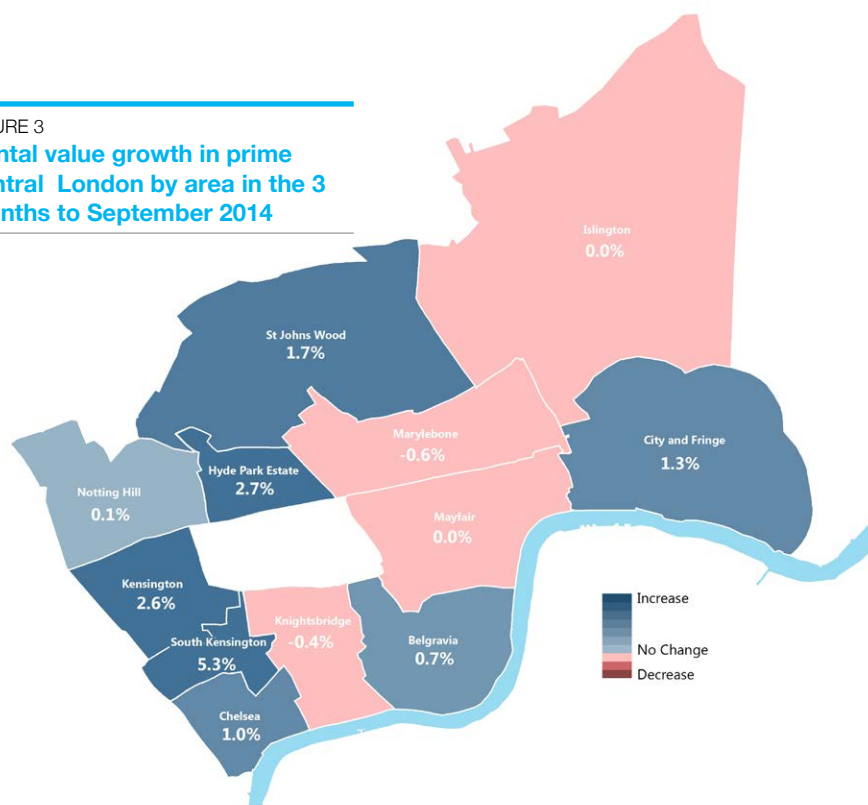


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3

Rental value growth in prime central London by area in the 3 months to September 2014



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: Belgravia, Chelsea, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Regent's Park, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Canary Wharf, Fulham, Hampstead, Richmond, 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 Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
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%
Apr-14	169.0	-1.6%	-0.2%	0.2%	0.3%
May-14	169.4	-1.4%	0.3%	0.8%	0.2%
Jun-14	170.9	-0.4%	1.6%	1.5%	0.9%
Jul-14	171.7	0.5%	1.8%	1.6%	0.4%
Aug-14	172.5	1.2%	2.7%	1.9%	0.5%
Sep-14	173.0	1.6%	2.7%	1.2%	0.2%

Source: Knight Frank Residential Research

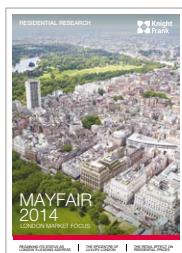
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