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 £500 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 here.

April 2017

The number of tenancies agreed in Q1 2017 was 31% higher than the same period last year

The number of super-prime lettings **deals in Q1 2017 was the highest on record**

Annual rental value growth **eased to -4.7% in April, an improvement on -5.1% at the end of last year**

The average prime gross **yield was 3.28% in April**

Macroview: The UK general election

DEMAND STRENGTHENS IN HIGHER AND LOWER PRICE BRACKETS AS TENANCIES RISE BY A THIRD

While demand in the sub-£1,000 and £5,000-plus per week markets is robust, activity in the mid-market remains more subdued, says Tom Bill

Rental values in the prime central London lettings market fell 0.2% in April, meaning rents declined 0.7% in the three months to April.

On an annual basis, rents fell by 4.7%, which is an improvement since the end of 2016, when annual declines were running at more than 5%.

Knight Frank data reveals that demand remains relatively stronger in lower and higher price brackets, which is reflected in the rental value growth rates illustrated in figure 4.

The number of new prospective tenants registering for properties priced between £500 and £1,000 per week in the first quarter of was 5.2% higher than the equivalent period in 2016. Meanwhile, the increase was 4.3% between £750 and £1,000.

However, for properties between £1,000 and £1,500, there was an 8% decline recorded over the same period.

This stronger level of demand was reflected in the fact that Knight Frank data confirms the overall number of tenancies agreed in the first three months of 2017 was 31.3% higher than the same period in 2016.

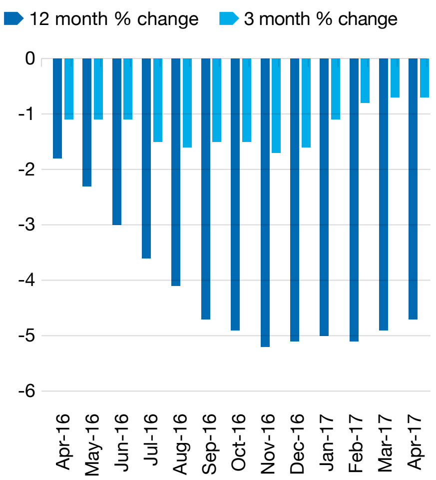
Activity remains more subdued in the middle price brackets where demand typically comes from senior executives in sectors such as financial services. The number of tenancies agreed in Q1 2017 between £1,000 and £5,000 per week fell 3.7% versus Q1 2016, LonRes data shows. Deals below £1,000 per week rose 22.9% over the same period.

Activity in the super-prime rental market above £5,000 per week remains strong. There were 27 super-prime lettings deals in the first quarter of 2017, which was the highest number on record, LonRes data shows.

Meanwhile, new supply is still out-pacing new tenant registrations, partly as a result on ongoing uncertainty around the effects of taxation in the sales market. The number of new lettings properties coming onto the market rose 21% over the first three months of 2017, Knight Frank data shows.

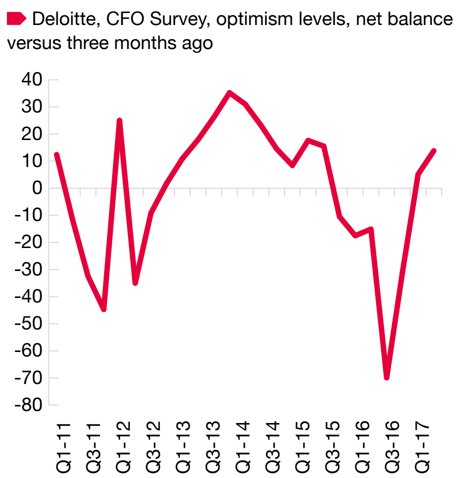
While the trajectory of Brexit talks remains unknown, a number of economic indicators turned more positive in the first quarter, which will bolster overall tenant demand. These include optimism levels among banks and CFOs across a range of sectors (as figure 2 shows), the lowest unemployment rate since 1975, better-than-forecast PMI data and a rate of inflation that is set to come under control.

FIGURE 1
Rental value declines bottom out



Source: Knight Frank Research

FIGURE 2
Economic sentiment improved in Q1 2017



Source: Knight Frank Research

TOM BILL
Head of London Residential Research

"While the trajectory of Brexit talks remains unknown, a number of economic indicators turned more positive in the first quarter"

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MACROVIEW | THE UK GENERAL ELECTION

The decision to call a general election for 8 June creates a degree of uncertainty in the prime central London property market.

However, there are grounds to believe there is unlikely to be a material impact on sales and lettings demand in the run-up to the vote.

Property is no different to other markets in disliking uncertainty but it is worth putting the seven-week campaign in context. The time between the announcement of an EU referendum and the vote was more than four months.

Furthermore, an analysis of sales transactions in London since 1995 shows general elections have a far smaller impact on activity than seasonal buying patterns or tax changes. The lettings market typically has an even less discernible reaction than the sales market.

Evidence that this election will have a smaller impact than previous votes was also demonstrated by the reaction of currency markets. The rise of Sterling underlined how opinion polls show there is less doubt surrounding the result than in 2015 as well as the belief in financial markets that a strengthened Conservative majority to enable a softer version of Brexit.

Additionally, the prime central London sales market is in recovery mode as it adapts to tax changes that include higher rates of stamp duty. Despite the current unpredictable nature of global political and economic events, the pricing adjustment taking place in prime central London to higher transaction costs is prosaic by comparison.

Another effect of the general election has been the shelving of proposals to change non-dom regulations, including the extension of inheritance tax to include UK residential property held offshore, due to time constraints ahead of the election.

The key question is whether the proposals are likely to be resurrected after the election or does this signal a rethink.

On the basis that the non-dom legislation was one of many items dropped from the Draft Finance Bill, a rethink appears unlikely.

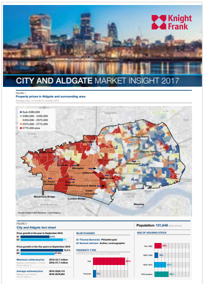
FIGURE 3

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

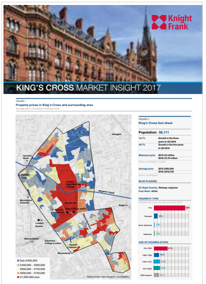
Prime Central London Index **164.6**

	£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	-0.5%	-0.1%	-0.1%	-0.5%	-0.1%	-0.1%	-0.2%	-0.2%
3 months	-1.1%	-0.4%	-0.8%	-1.3%	-1.7%	-0.1%	-0.8%	-0.7%
6 months	-1.0%	-0.5%	-1.5%	-3.3%	-3.4%	-2.1%	-1.7%	-2.1%
1 year	-1.7%	-2.4%	-4.8%	-7.5%	-6.5%	-5.5%	-4.1%	-6.2%
YTD	-0.8%	-0.5%	-0.4%	-2.0%	-1.9%	-0.7%	-0.9%	-1.1%

London Review Spring 2017



City and Aldgate market insight 2017

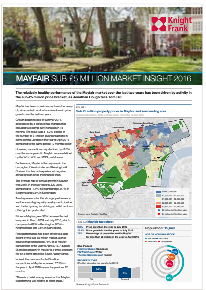


King's Cross market insight 2017

Riverside market insight 2017

Victoria and Westminster Market insight 2017

Martlebone market insight 2016



Mayfair market insight 2016

Prime Central London Sales Index April 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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