



Central London residential rents fall for third consecutive month

The current phase of economic weakness is impacting on rental prospects, but is likely to be contained by supply and demand fundamentals, argues Liam Bailey, Knight Frank's Head of Residential Research.

Results for December 2011

Prime London residential rents fell 0.1% in December 2011, the third consecutive monthly decline

Recent rental falls have contributed to a sharply lower annual rate of rental growth of 6.7% in December, compared to 16% a year earlier

Rental growth has remained healthier in the sub-£1,500 per week segment, which has risen 7.3% over the past year, compared to only 4% in the £1,500+ per week segment

The volume of new tenancy commencements has slipped 2% over the past year

Despite the decline in activity, new demand is still outpacing new supply

"We expect to see rental growth in central London for the whole of 2012 to equate to around 4% or 5%."



Liam Bailey, Head of Residential Research

For two years from mid-2009 the prime London lettings market delivered very strong rental growth for landlords. Not only did rents recover all of the losses incurred during the 2008 financial crisis, but by early 2011 they hit all-time highs.

This growth was underpinned by the recovery of the central London economy, which was gathering pace at least up until the middle of last year. In addition there has been a steady recovery in the ratio of demand versus supply.

Economic prospects have weakened, leading to slower rental growth and the recent period of declines. It seems likely however that the current demand and supply balance will limit rental falls.

Although the volume of new tenancies fell slightly in the three months to December, compared to the same period in 2010, by 2%,

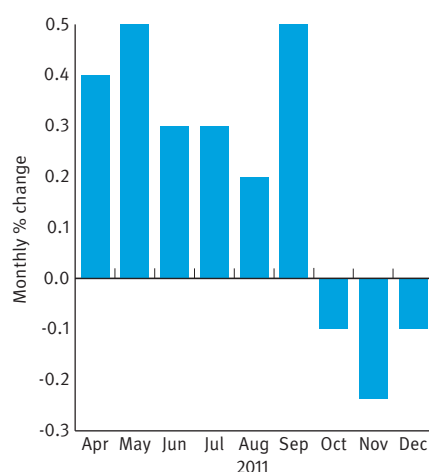
evidence from our other market measures confirms a more positive outlook.

Demand, in the form of new tenant registrations, has risen by 20% over the past year, whereas new rental instructions are only higher by 6%.

The relative position of demand and supply is best illustrated by the ratio of new applicants to new rental instructions, which has risen from 2.94 in the three months to December 2010, to 3.44 in the same period in 2011.

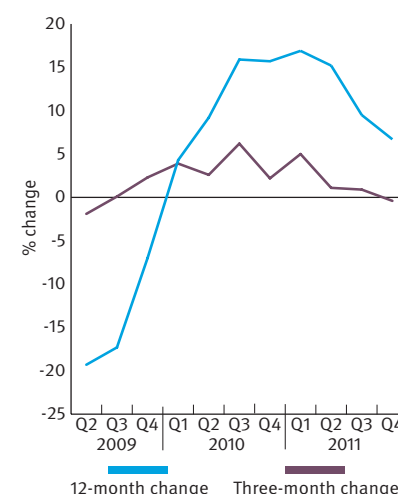
We expect to see rental growth in central London for the whole of 2012 to equate to around 4% or 5%. While positive, this rate would represent the lowest level of growth since late 2009. But it would also represent a shift to a more sustainable trajectory for the market after two years of sharp rental increases.

Figure 1
Monthly growth
Prime central London average residential rental change



Source: Knight Frank Residential Research

Figure 2
Annual and quarterly growth
Prime central London average residential rental change



Source: Knight Frank Residential Research

RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank



Know your tenant

Top 15 prime London tenant nationalities, 2010 and 2011

2010		2011	
40%	United Kingdom	42%	United Kingdom
15%	US	14%	US
6%	France	5%	France
3%	German	3%	Italy
2%	Australia	3%	Russia
2%	India	3%	German
2%	Italy	3%	Spain
2%	Spain	2%	Australia
2%	Russia	2%	India
2%	Sweden	2%	Ireland
2%	Netherlands	1%	Sweden
2%	Canada	1%	Netherlands
1%	Ireland	1%	Canada
1%	Norway	1%	Japan
1%	Switzerland	1%	China

Asia-Pacific North America Europe

Source: Knight Frank Residential Research

Data digest

The **Knight Frank Prime Central London Rental 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 of London, Hyde Park, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Hyde Park, South Kensington and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

Knight Frank Prime Central London Rental Index

		KF Prime Central London Index	12-month change %	6-month change %	3-month change %	Monthly change %
Index quarterly to the end of Q1 2011	Q1 2009	143.5	-18.2%	-16.3%	-7.4%	n.a.
	Q2 2009	140.8	-19.3%	-9.2%	-1.9%	n.a.
	Q3 2009	140.9	-17.8%	-1.8%	0.1%	n.a.
	Q4 2009	144.2	-7.0%	2.4%	2.3%	n.a.
	Q1 2010	149.8	4.3%	6.3%	3.9%	n.a.
	Q2 2010	153.7	9.2%	6.6%	2.6%	n.a.
	Q3 2010	163.2	15.9%	9.0%	6.2%	n.a.
	Q4 2010	166.8	15.7%	8.5%	2.2%	n.a.
	Q1 2011	175.1	16.9%	7.3%	5.0%	n.a.
	Apr-11	175.7	n.a.	n.a.	n.a.	0.4%
Index monthly from April 2011	May-11	176.6	n.a.	n.a.	n.a.	0.5%
	Jun-11	177.1	15.2%	6.1%	1.1%	0.3%
	Jul-11	177.5	n.a.	n.a.	1.0%	0.3%
	Aug-11	177.9	n.a.	n.a.	0.7%	0.2%
	Sep-11	178.7	9.5%	2.1%	0.9%	0.5%
	Oct-11	178.5	n.a.	1.6%	0.6%	-0.1%
	Nov-11	178.1	n.a.	0.9%	0.1%	-0.2%
	Dec-11	178.0	6.7%	0.5%	-0.4%	-0.1%

Key market metrics

Prime central London rental market activity, three months to December 2011 compared to same period last year

Demand	New tenant registrations	20% ▲
	Property viewings	32% ▲
Supply	New property instructions	6% ▲
Activity	Tenancies commenced	-2% ▼
Demand and supply balance	Ratio of new applicants/ new instructions (2010)	2.94
	Ratio of new applicants/ new instructions (2011)	3.44

Residential Research

Liam Bailey

Head of Residential Research

+44(0)20 7861 5133

liam.bailey@knightfrank.com

Press Office

Daisy Ziegler

+44 (0)20 7861 1031

daisy.ziegler@knightfrank.com

Recent market-leading research publications



UK Housing Market Forecast Q4 2011



Knight Frank/Markit's HPSI December 2011



The London Review Autumn 2011



London Hotspots 2011

Knight Frank Research Reports are available at www.KnightFrank.com/Research

Notes to Editors

Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank and its New York-based global partner, Newmark Knight Frank, operate from 242 offices, in 43 countries, across six continents. More than 7,067 professionals handle in excess of US\$817 billion (£498 billion) worth of commercial, agricultural and residential real estate annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Company, please visit www.knightfrank.com.

© Knight Frank LLP 2012 - This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Residential Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Residential Research. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Registered office: 55 Baker Street, London, W1U 8AN



Global Briefing

For the latest news, views and analysis on the world of prime property, visit KnightFrank.com/GlobalBriefing