

## Prime London rents fall but demand growth and economic recovery signal improvement

**Prime central London rents are ending the year in decline but rising demand and economic data point to growth in 2014, as Tom Bill explains.**

### Results for November 2013

**Prime central London rents fell by 0.3% in November**

**Rents are 2% down** in the year-to-date...

...but there are stirrings of economy recovery...

...and **rents are expected to rise 2% in 2014**

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**TOM BILL**  
Associate, Residential Research

*"Downwards pressure should ease next year when we expect rents to rise by 2% in prime central London, fuelled by job creation and increased economic optimism in the City."*

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Prime central London rents fell by 0.3% in November, meaning luxury rents have been falling or flat for 18 months.

The latest drop pushed the rate of decline in 2013 down to 2%, but we expect rental growth to return in 2014.

Demand for rented accommodation in London is certainly on the rise. The number of new lettings in the year is up 18% on the previous 12 months, while new viewings and applicants were up by 8% and 9%, respectively.

The performance of London's prime rental market has traditionally been linked to the health of the financial services sector, which is still reeling from mass layoffs at banks and other financial sector firms in 2010 and 2011. This downwards pressure should ease next year when we expect rents to rise by 2% in prime central London, fuelled by job creation and increased economic optimism in the City.

As a result, we expect prime central London rents to outperform other markets over the medium term, rising 18% between 2014 and 2018 versus 16% in the UK and 17% in prime outer London.

Meanwhile, the employment outlook in London continues to improve against a background of growth forecasts that many economists are

revising upwards, including the Confederation of British Industry earlier this month.

According to the Markit Economics Report on Jobs, the number of staff placed in permanent positions by London-based recruitment consultancies rose for a fifth straight month in October.

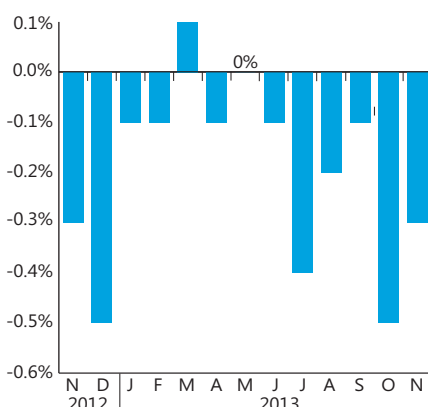
The improving data on the London economy is positive for the rental market where the index is still only 5% below its all-time high in September 2011 and a fifth higher than the post-Lehman low in the middle of 2009.

While bank employment remains under pressure, demand is emerging from alternative sectors including technology, media and telecoms and the legal profession.

By price band, the £500-£1,500 per week price bracket saw a 0.2% decline in November compared to the previous month, and a decline of 2.7% over the year-to-date. In comparison, properties in the £1,500+ per week bracket fell by 0.5% in November and have fallen by 1.6% in 2013.

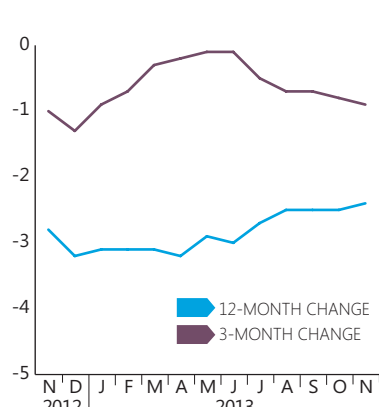
While the headline figure indicates falling rents, there were some areas of growth, with Hyde Park rising 0.4% and Marylebone flat in November though up 2.2% in the year to date.

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

## 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 & Fringe, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Riverside\*, 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 Rental Index

	KF Prime Central London Index	12-month change %	6-month change %	3-month change %	Monthly change %
Nov-11	178.1	0.0%	0.9%	0.1%	-0.2%
Dec-11	178.0	6.7%	0.5%	-0.4%	-0.1%
Jan-12	177.7	0.0%	0.1%	-0.5%	-0.2%
Feb-12	177.3	0.0%	-0.3%	-0.4%	-0.2%
Mar-12	177.3	1.2%	-0.8%	-0.4%	-0.1%
Apr-12	177.3	0.9%	-0.7%	-0.2%	0.1%
May-12	176.9	0.2%	-0.7%	-0.3%	-0.3%
Jun-12	176.9	-0.1%	-0.6%	-0.2%	0.0%
Jul-12	175.6	-1.1%	-1.2%	-1.0%	-0.8%
Aug-12	174.9	-1.7%	-1.4%	-1.1%	-0.4%
Sep-12	174.6	-2.3%	-1.5%	-1.3%	-0.1%
Oct-12	173.8	-2.7%	-2.0%	-1.0%	-0.5%
Nov-12	173.2	-2.8%	-2.1%	-1.0%	-0.3%
Dec-12	172.3	-3.2%	-2.6%	-1.3%	-0.5%
Jan-13	172.1	-3.1%	-2.0%	-0.9%	-0.1%
Feb-13	171.9	-3.1%	-1.7%	-0.7%	-0.1%
Mar-13	171.8	-3.1%	-1.6%	-0.3%	-0.1%
Apr-13	171.7	-3.2%	-1.2%	-0.2%	-0.1%
May-13	171.7	-2.9%	-0.8%	-0.1%	0.0%
Jun-13	171.6	-3.0%	-0.4%	-0.1%	-0.1%
Jul-13	170.8	-2.7%	-0.7%	-0.5%	-0.4%
Aug-13	170.5	-2.5%	-0.8%	-0.7%	-0.2%
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%

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