

PRIME CENTRAL LONDON RENTAL VALUES FLAT DUE TO MIXED FORTUNES IN GLOBAL ECONOMY

Rental value growth slowed to zero in November as the year-end approaches and question marks remain over the global economy, as Tom Bill explains

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Rental values were flat in November though rents have risen 3.3% in 2014

Rents grew 0.2% for properties above £1,500 per week, while they fell -0.2% for properties below £1,500 per week

Future business activity of financial services companies is rising but optimism has cooled

Corporate demand has risen strongly, including at the super-prime level, but global economic risks remain

Rental yields rose to 2.92%, continuing a climb back towards 3%, a figure they last surpassed 18 months ago



TOM BILL

Head of London Residential Research

"Rental value growth has been stimulated by the return to relative health of the UK economy however there is some degree of caution in relation to other parts of the world"

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Rental values in prime central London were flat in November as a seasonal slowdown dampened activity in a market that has otherwise been in recovery mode.

Though the index recorded zero monthly growth, it has risen 3.3% since the start of 2014 as demand rose following a shallow two-year decline that took place against the backdrop of a flaccid economy and a surging sales market.

Rental value growth has been stimulated by the return to relative health of the UK economy however there is some degree of caution in relation to other parts of the world that may curb demand among corporate tenants.

In November, China cut interest rates for the first time in more than two years and speculation has grown that the European Central Bank is getting closer to full-blown quantitative easing, both of which are measures designed to boost their respective economies.

Next May's general election is adding to a mood of uncertainty and, as figure two shows, there are mixed feelings about the near-term future.

On the positive side, the FTSE 100 has rebounded after a drop earlier in the year and a CBI/PWC survey of financial services companies for the third quarter of 2014 found a growing balance of companies that expect business activity to rise.

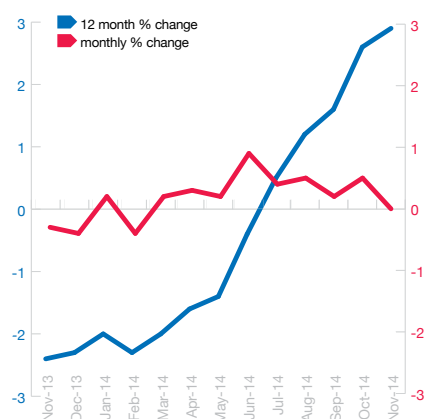
However, the survey also found that optimism among financial services companies has declined since the start of the year, which may also be the result of geopolitical instability as well as regulatory concerns in the banking industry.

A positive longer-term indicator is that the super-prime market, which covers rental values of £5,000 per week and above, is buoyant versus last year, indicating relocation budgets are growing for the most senior positions.

Rental values above £1,500 per week grew 0.2% in November, a rise cancelled out by a -0.2% decline for properties below £1,500 per week.

Rental yields rose to 2.92% in November, continuing a climb back towards 3%, a figure they last surpassed 18 months ago.

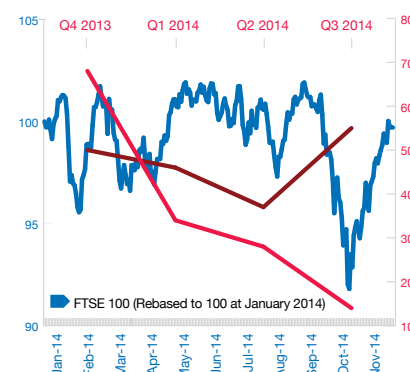
FIGURE 1
Annual rental value growth remains positive



Source: Knight Frank Residential Research

FIGURE 2
An 'up and down' economic picture

CBI/PWC survey of financial services companies
 ■ Optimism versus 3 months ago
 ■ Volume of business in the next 3 months

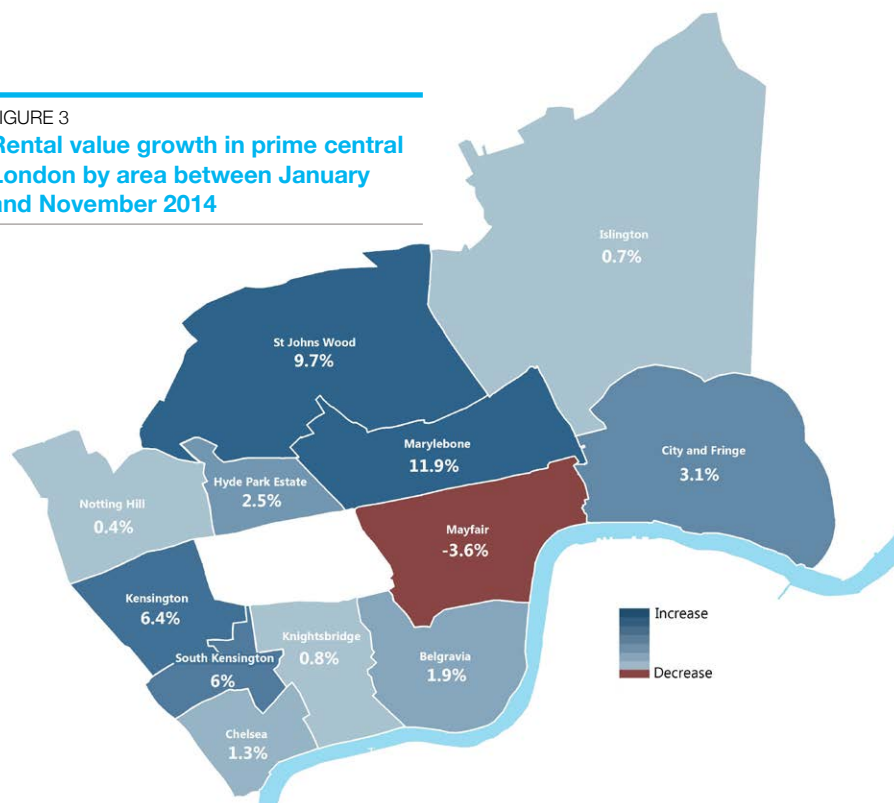


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3

Rental value growth in prime central London by area between January and November 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, South Kensington, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Barnes, Canary Wharf, Chiswick, Clapham, Fulham, Hampstead, Richmond, 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.

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
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%
Oct-14	173.8	2.6%	2.9%	1.2%	0.5%
Nov-14	173.8	2.9%	2.6%	0.7%	0.0%

Source: Knight Frank Residential Research

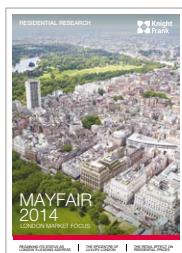
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