# 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.

## November 2016

The number of tenancies agreed in the **three months to November was 23.2% higher than the same period in 2015**

The number of viewings and new prospective tenants **increased 18.4% and 7.8%, respectively over the same period**

**The average Prime Central London gross rental yield was 3.18%** in November

**Average rents fell by 5.2%** in the year to the end of November

**Macro View:** The Autumn Statement

TOM BILL
**Head of London Residential Research**

"The extent of the cost pressures faced by banks was underlined in November when several failed to meet certain Bank of England stress tests"

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## TENANT DEMAND REMAINS STRONG DESPITE SEASONAL SLOWDOWN

**The number of tenancies agreed has outpaced last year's numbers despite continued uncertainty in the financial services sector, says Tom Bill**

The number of tenancies agreed in prime central London was higher in the three months to November than last year, despite a moderate slowdown ahead of the Christmas holiday period, the number of deals in the three-month period was 23.2% higher than in 2015 (figure 1).

The seasonal dip in November, aggravated by uncertainty surrounding the US election result, followed two successive record months for Knight Frank August and September for tenancies agreed.

One support for higher activity levels is the fact higher stock levels have put downwards pressure on rental values, which has boosted affordability for tenants, whose negotiation position has strengthened over the course of this year.

Higher supply is the result of increased regulatory uncertainty in the sales market, which has meant a growing number of vendors have opted to let their property rather than sell until more clarity emerges surrounding future pricing trends.

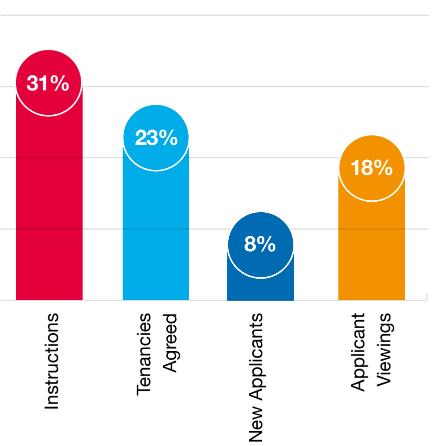
Annual rental value growth declined to -5.2% in November, which is the weakest it has been since December 2009. However, we forecast growth will ease to -2% in prime central London West in 2017 and remain flat in prime central London East.

The pattern of higher deal volumes is more marked below £1,500 and above £5,000 per week, while activity remains weaker in between, a section of the market traditionally driven by senior executives in financial services.

While broader uncertainty persists over issues including the UK's decision to leaves the EU and the election of Donald Trump, the extent of the cost pressures faced by banks was underlined in November when several banks failed to meet certain Bank of England stress tests.

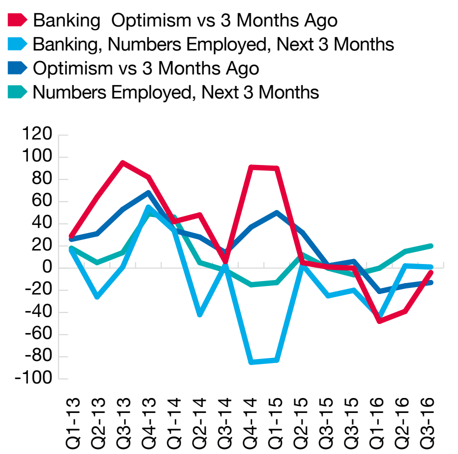
While there is a sense any future headcount reductions are unlikely to match previous redundancy rounds which have followed similar tests, optimism levels remain down on a year ago, according to a PWC/CBI data (figure 2).

FIGURE 1
**Market activity is stronger than 2015**
Three months to November 2016 versus the same period in 2015




**Source:** Knight Frank Research

FIGURE 2
**Business optimism and employment outlook subdued**
PWC/CBI business survey (>0 = a positive balance)




**Source:** Knight Frank Research

FIGURE 3

**Rental value growth in prime central London by area in the year to November 2016**

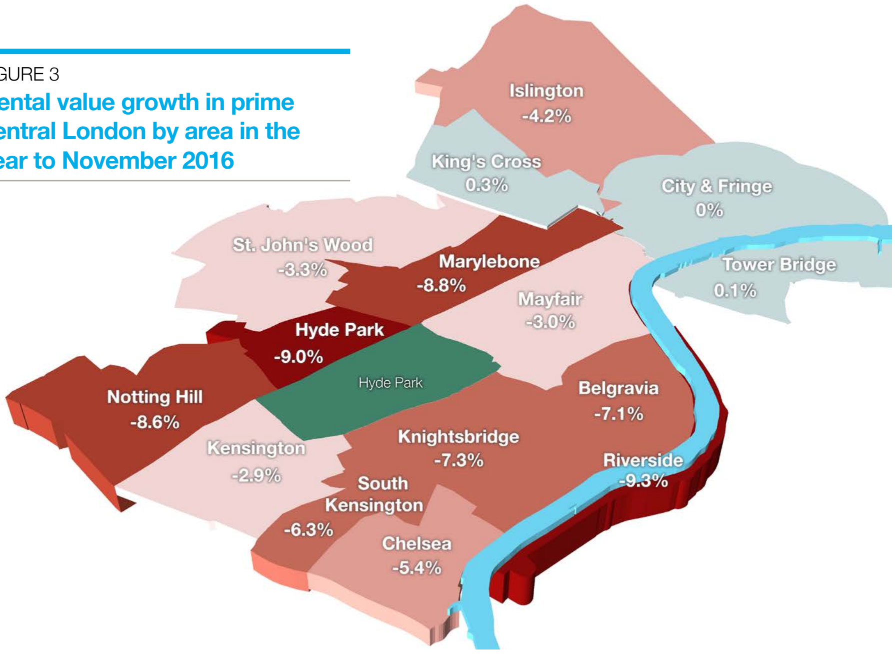



FIGURE 4

**Rental value growth in prime central London by price bracket and property type**

Prime Central London Index **166.8**

| | £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 | -0.1% | -0.6% | -0.1% | -0.6% | -0.9% | -0.8% | -0.6% | -0.5% |
| 3 months | -0.6% | -1.6% | -0.8% | -2.2% | -2.4% | -2.1% | -1.5% | -2.2% |
| 6 months | -0.8% | -2.6% | -2.6% | -4.6% | -5.2% | -3.8% | -2.8% | -4.4% |
| 1 year | -1.1% | -3.0% | -5.2% | -8.1% | -5.9% | -6.7% | -4.5% | -6.9% |
| YTD | -1.1% | -3.0% | -4.4% | -7.4% | -5.9% | -6.1% | -4.2% | -6.3% |

## THE AUTUMN STATEMENT REACTION

The absence of stamp duty reform was the stand out Autumn Statement story for the prime central London market.

Against the background of a London property market that has become increasingly politicised, this leads to three conclusions.

First, expectations that lobbying would lead to a cut were based on a strong element of wishful thinking. While such expectations are unlikely to completely disappear in 2017, anticipation is likely to decline.

Second, the government continues to operate within tight political confines, irrespective of any clamour surrounding a stamp duty cut.

Despite the economic arguments that lower stamp duty rates will boost the tax take, the government will be walking a narrower political tightrope in 2017 than this year.

On the one hand, it has to ensure the economy and tax revenues are resilient as Brexit negotiations begin. On the other, it needs to retain the political allegiance of the group of voters it has dubbed “Just About Managing”.

The rules governing this balancing act are likely to change depending on the flow of economic data and trajectory of Brexit negotiations.

All of which means fiscal policy is likely to become less predictable, which will ultimately mean fewer buyers and sellers can factor it into their decision-making.

The third conclusion is that pent-up demand will continue to be released where vendors adjust asking prices to reflect higher transaction costs, to some degree irrespective of the political background.

As discussed here previously, higher rates of stamp duty are having a distortive effect on the wider London market and explain a longer-term historical decline in transaction volumes. However, signs of resilience since the Brexit vote indicate that while demand has become more subdued since a stamp duty hike in December 2014, realistic pricing can stir it into life.

# 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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