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 £250 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
http://www.knightfrank.co.uk/research

September 2017

Average rental values fell 3% in the year to September 2017, the smallest decline since June 2016

The number of new lettings properties on the market between January and August 2017 increased 2.2%

The number of new prospective tenants increased 19.6% between January and August versus 2016

There was a 9.8% increase in the number of landlords re-letting their property in the year to August 2017

The average prime gross yield in September was 3.2%

Macroview: Where next for interest rates?

TOM BILL
Head of London Residential Research

"The imbalance between new levels of supply and demand suggests the market balance is likely to tip back in the favour of landlords"

Follow Tom at @TomBill_KF

For the latest news, views and analysis on the world of prime property, visit Global Briefing or @kfglobalbrief

NEW DEMAND OUTSTRIPS NEW SUPPLY IN PRIME CENTRAL LONDON LETTINGS MARKET

A slowdown in the rate of new property is putting upwards pressure on rental values, says Tom Bill

Average rental values in prime central London dipped 0.1% in the three months to September, which was the smallest quarterly decline in almost two years.

Average rents were down 3% year-on-year, the most modest decline since June 2016, underlining how a slowdown in new lettings stock coming onto the market is putting upwards pressure on rental values.

The number of properties coming onto the market between January and August was up just 2.2% year-on-year, compared to an equivalent jump of 33% between 2015 and 2016.

Higher supply was the result of slower activity and pricing uncertainty in the sales market following a succession of tax hikes, which meant more owners decided to let rather than sell. However, this trend has started to reverse as asking prices adjust and demand improves.

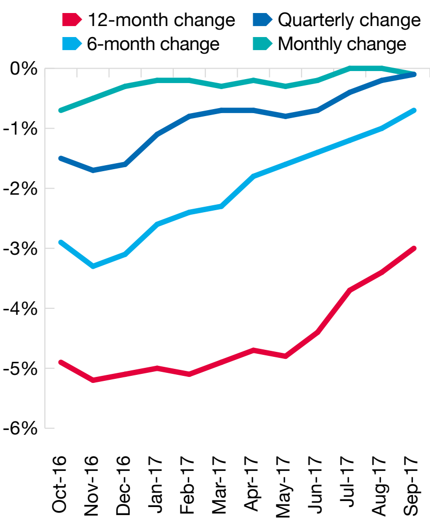
While the availability of lettings properties has become more muted, demand is rising, which is also boosting rental values. The number of new prospective tenants registering in the first eight months of this year increased 19.6% and viewing levels were 25% higher than last year. Furthermore, the number of tenancies agreed in the first eight months of the year was 19% higher than 2016.

The imbalance between new levels of supply and demand suggests the market balance is likely to tip back in the favour of landlords after a period when tenants have benefitted from higher supply levels and falling rental values.

There is no sign that recent tax changes for landlords have exacerbated the trend for declining levels of new stock in any material way by prompting landlords to sell. Recent tax changes include the reduction of tax relief on mortgage interest, the loss of the wear-and-tear allowance and a 3% stamp duty levy for buy-to-let investors.

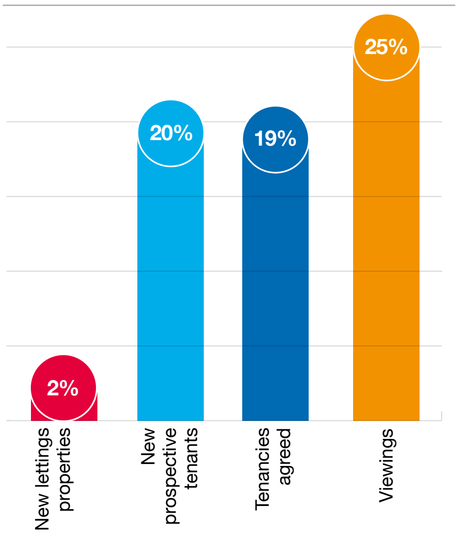
While there are fewer buy-to-let mortgages issued in the UK than before a 3% stamp duty was introduced in April 2016, Knight Frank data shows there was a 9.8% rise in the number of landlords who re-let their property in prime central London in the year to August 2017, underlining the fact there has been no large-scale exit from the buy-to-let sector.

FIGURE 1
Rental value performance in prime central London



Source: Knight Frank Research

FIGURE 2
New demand outpaces new supply
January-August 2017 versus January-August 2016



Source: Knight Frank Research

MACROVIEW | WHERE NEXT FOR INTEREST RATES?

The pound has been trading at between $1.32 and $1.36 in recent weeks following stronger hints from the Bank of England that it may raise the base rate sooner rather than later due to higher inflation.

Bank of England Governor Mark Carney dropped a further hint last week, saying: “If the economy continues on the track that it’s been on, and all indications are that it is, in the relatively near term we can expect that interest rates will increase.”

There are several implications for the property market if rates rise. The first is that current upwards pressure on ultra-low mortgage rates will intensify, as suggested by a spike in five-year swap rates in September.

It also means holding cash or government bonds becomes more attractive for investors.

However, it should be noted that any impact will be limited by the fact rates will initially climb back to 0.5%, which is where they were before the EU referendum and will still be ultra-low by historical standards.

Furthermore, there are several reasons to suggest the medium-term trajectory won’t be steep.

The first is Brexit and the accompanying economic uncertainty. The Bank of England will require more clarity around the economic implications of leaving the EU before any normalisation of rates.

Furthermore, wage growth is still relatively subdued, which will act as a brake on inflation. Some economic indicators, such as new cars sales, remain relatively weak, and are likely to prevent a more hawkish monetary stance.

All of these factors suggest that generating income will remain challenging for investors and the higher returns available in the residential property market will continue to look attractive.

As a Knight Frank analysis of lettings market data showed, landlords are not exiting the prime central London property market despite a recent series of tax changes. Part of the reason will bethe fact there is no easy an answer to the question “where else do I put my money?” as well as London’s standing as a global city.

FIGURE 3

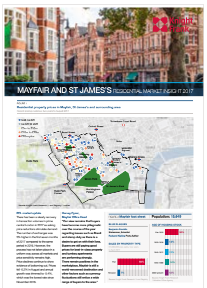
Annual rental value growth in prime central London by price bracket and property type, September 2017

Prime Central London Index **163.8**

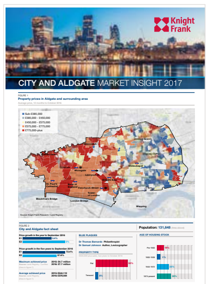
	£250 - £500 pw	£500 - £750 pw	£750 - £1,000 pw	£1,000 - £1,500 pw	£1,500 - £2,000 pw	£2,000+ pw	Flat	House
1 month	0.4%	-0.2%	0.2%	0.0%	-0.2%	-0.4%	0.0%	-0.3%
3 months	0.0%	0.2%	0.5%	-0.6%	-0.1%	-0.4%	-0.2%	0.2%
6 months	-0.7%	-0.2%	0.6%	-1.8%	-1.1%	-1.1%	-0.8%	-0.6%
1 year	-1.5%	-1.0%	-1.3%	-5.7%	-5.3%	-3.7%	-2.8%	-3.5%
YTD	-1.0%	-0.5%	0.2%	-3.2%	-2.8%	-1.7%	-1.4%	-1.6%

London Review Autumn 2017

Prime Central London Sales Index June 2017



Mayfair market insight 2016



City and Aldgate market insight 2017

Victoria and Westminster Market insight 2017

Marylebone market insight 2016

Residential Market Update

Prime Country House Index

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.

RESIDENTIAL RESEARCH

Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

RESIDENTIAL LETTINGS

Tim Hyatt
Head of Lettings
+44 20 7861 5044
tim.hyatt@knightfrank.com

PRESS OFFICE

Harry Turner
+44 20 3861 6974
harry.turner@knightfrank.com

Jamie Obertelli
+44 20 7861 1104
jamie.obertelli@knightfrank.com