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 £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.

September 2016

Knight Frank data reveals that number of tenancies agreed in **August 2016 was the highest on record**

The number of tenancies agreed in the **three months to August rose 15.7%**

The number of new **prospective tenants and viewings rose 5.5% and 21.7%, respectively**

Annual rental value growth was **-4.7% in September**

Macro View: Financial services in post-Brexit London

LETTINGS DEMAND BOOSTED BY STAMP DUTY AND BREXIT UNCERTAINTY

Uncertainty in the sales market means demand and supply in the lettings market have risen markedly, says Tom Bill

Demand in the prime central London lettings market continued to strengthen in September as uncertainty persisted over short-term pricing trends in the sales market.

The hesitation primarily relates to the impact of higher rates of stamp duty but the UK's decision to leave the European Union has amplified a pre-existing mood of uncertainty.

Both supply and demand have grown markedly as tenants and landlords await more clarity over the trajectory of the sales market. As we discuss in our prime central London sales report this month, early leading indicators of demand are strengthening across higher price brackets.

As a result of these trends, Knight Frank agreed a record number of tenancies in July this year. That record was broken the following month in August, with a 12% increase in the number of tenancies agreed.

In the three months to August, the number of tenancies agreed rose 15.7% on the same period in 2015, while the number of new prospective tenants and viewings rose 5.5% and 21.7%, respectively.

The number of new properties coming onto the market rose 43.8% over the same period and the total in August was the second highest on record. April this year was the highest month as a result of changes to stamp duty for buy-to-let investors in March.

Rental values continued to decline as a result of higher stock levels, falling -4.7% in the year to September, a decline that means tenants have been able to widen their search areas to more expensive areas of prime central London.

Supply and demand are less balanced in some price bands and markets, which means asking rents are being exceeded by some margin in some areas. This is the case for lower-value properties in some of the best City and Fringe developments.

More broadly, lower price bands have been performing more strongly, as figure 4 shows. Rental value growth below £500 per week is stronger than higher price brackets, though it strengthens upwards of £2,000, which reflected a strong month for super-prime tenancies (£5,000-plus per week) in September.

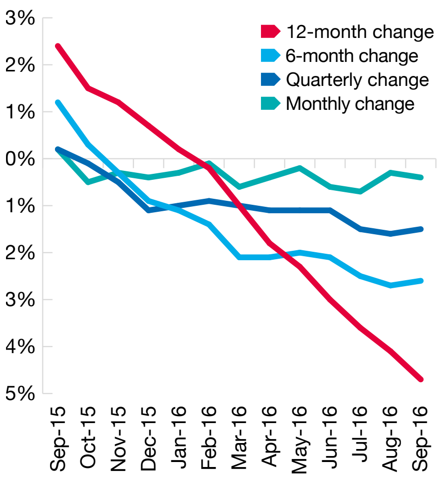
TOM BILL
Head of London Residential Research

"Knight Frank agreed a record number of tenancies in July this year. That record was broken the following month in August."

Follow Tom at @TomBill_KF

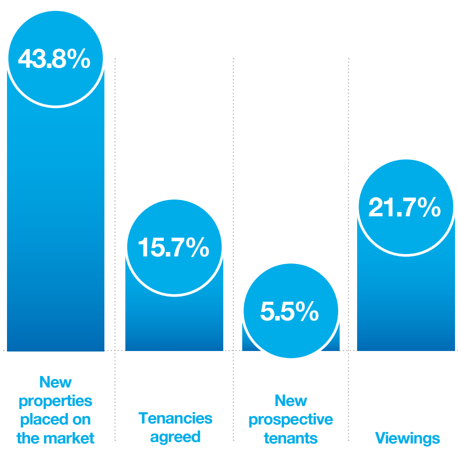
For the latest news, views and analysis on the world of prime property, visit Global Briefing or @kfglobalbrief

FIGURE 1
Rental value growth in prime central London



Source: Knight Frank Research

FIGURE 2
Lettings market key indicators
Three months to August 2016 versus 2015



Source: Knight Frank Research

FIGURE 3
Rental value growth in prime central London by area in the year to September 2016

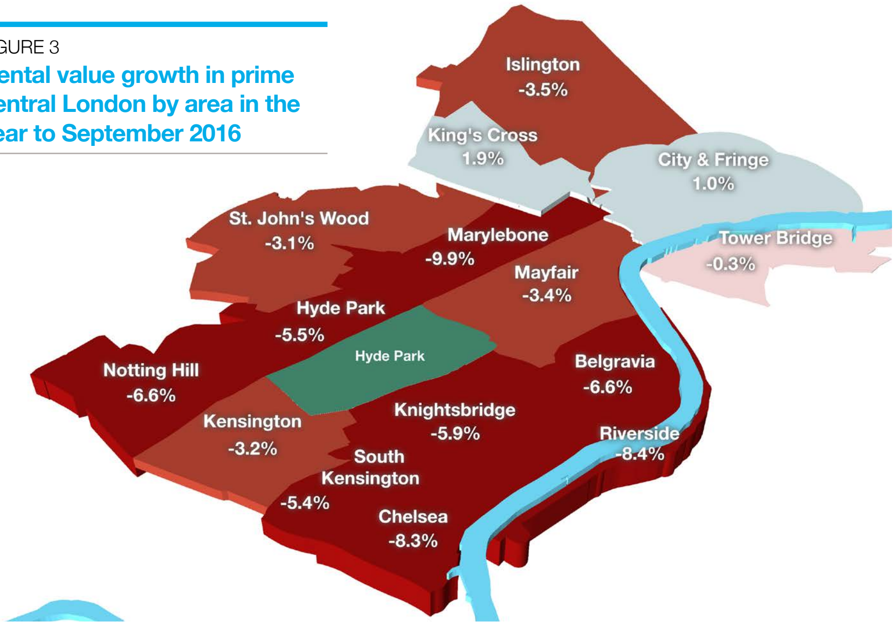


FIGURE 4
Rental value growth in prime central London by price bracket and property type

Prime Central London Index **170.2**

	£250 -£500 pw	£500 -£750 pw	£750 -£1,00 pw	£1,000 -£1,500 pw	£1,500 - £2,000 pw	£2,000+ pw	Flat	House
1 month	-0.2%	-0.5%	-0.3%	-0.3%	-0.4%	-0.7%	-0.3%	-0.7%
3 months	-0.3%	-1.3%	-0.7%	-2.0%	-2.0%	-2.1%	-1.2%	-2.4%
6 months	-0.3%	-1.6%	-3.5%	-3.8%	-1.8%	-3.6%	-2.1%	-3.9%
1 year	-0.6%	-2.1%	-5.0%	-7.0%	-5.1%	-6.5%	-4.0%	-6.5%
YTD	-0.6%	-1.9%	-3.9%	-5.7%	-4.0%	-4.7%	-3.1%	-4.9%

LONDON AS A FINANCIAL SERVICES HUB AFTER BREXIT

Since the UK voted to leave the European Union in June, a key area of focus has been London's financial services industry.

For all the speculation surrounding a 'hard Brexit' and the prospect of banks seeking office space in other European cities, two assumptions are emerging.

First, London's significance as a global financial centre and its relationship with the EU mean there is mutual interest in minimising any economic damage.

Second, there may be a degree of fragmentation in the short-term, but London will continue to dominate its time zone.

The latest Z/Yen Global Financial Centres report in September raises the prospect of fragmentation, but the report's author Mark Yeandle believes there is no viable rival to London in Europe. The report, which was largely compiled before the referendum, ranks global financial centres according to a range of criteria and London held first place.

He told Knight Frank: "Little bits and pieces may move to Europe and cities like Dublin and Frankfurt may benefit but London dwarfs everywhere else to the extent that nowhere can replace it. Remember it has more financial services workers than the whole population of Frankfurt.

"London has so many strengths, including its currency, time zone, human capital, sensible labour laws and good regulation. All the attributes that made it such a successful city in the first place remain in place."

"It is also worth remembering that a lot of the business done in Switzerland, which is outside the EU, comes via London, so that's something I can't see changing."

Yeandle believes the fact some Asian markets would gain most in the event of an economically unfavourable deal will also help ensure a mutually beneficial deal is done between the UK and EU.

"I believe markets like Shanghai stand to benefit more than New York but that still brings you back to the fact that London is the only market of a sufficient critical mass in its time zone."

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

Knight Frank

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