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Market in Minutes
Prime Lettings

Q1 2014

SUMMARY

Modest first quarter growth is recorded in London's prime rental markets

■ Despite demand in the private rented sector remaining strong, over the past few years rental growth across prime London has remained roughly flat as supply has met demand.

■ In the prime commuter zone, rental growth has outperformed prime London over the past year with properties that are within a town centre, close to local amenities such as schools, remaining more popular than rural locations.

■ Looking forward, rental growth across the residential markets as a whole is likely to be relatively strong, driven by those unable or unwilling to enter the world of homeownership though there are some affordability constraints in the short term.

TABLE 1

Rental value movements to Q1 2014

	All Prime London	Prime Central London	Prime North West	Prime South West	Prime North	Prime East of City	Prime Commuter Zone
Q on Q	0.1%	1.0%	-1.0%	0.1%	0.6%	1.2%	1.7%
Y on Y	-0.5%	-0.6%	-3.0%	0.1%	1.3%	3.7%	1.2%
Since Peak	-1.5%	-3.8%	-10.1%	1.3%	-3.5%	6.1%	-3.2%
£ per sq ft	£41	£61	£44	£29	£34	£33	£17

Source: Savills Research

The prime rental markets of London saw values increase by a modest 0.1% in the first quarter of 2014, in contrast to the small falls seen in rents at the end of 2013. This leaves values -0.5% below where they were this time last year. Although rental growth continues to be lacklustre across London, this is not a result of low levels of demand as the private rented sector continues to increase.

By contrast, the supply of rental property is currently the major consideration in the prime London market. The prime East of City market saw the strongest rental growth over the quarter and annually due to uncharacteristically low levels of stock. In the core areas of prime central London (PCL) including Mayfair and Sloane Street, new build stock coming on to the market from foreign investor landlords has put a slight downward pressure on rental growth. In Kensington, where the growth in new supply has been slightly less significant, rents have risen 1.0% year on year compared to a -1.6% fall in core PCL areas.

Flats vs houses

Across all of prime London, houses outperformed flats over the first three months of 2014, with house rentals increasing on average by 0.4%. Behind this trend has been a noticeable increase in corporate budgets over the first three months of 2014. Companies have been prepared to relocate the families

> "The supply of rental property is currently the major consideration in the prime London market"
> Lucian Cook, Savills Research

Lessons from the English Housing Survey

Homeownership at its lowest level for 25 years

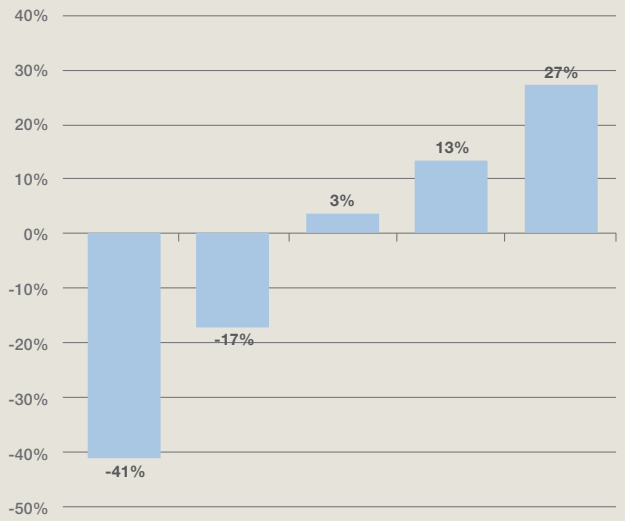
In 2012/13, the private rented sector accounted for four million or 18% of households according to the English Housing Survey. A significant proportion considering the sector accounted for 10% of households throughout the 1980s and 1990s.

On the other hand, homeownership fell to its lowest level in 25 years in 2012/13 with the most significant fall since 2011 seen among those under the age of 44. Property price growth in the first half of the past decade combined with mortgage constraints in the last five years have contributed to the decline in homeownership among younger people.

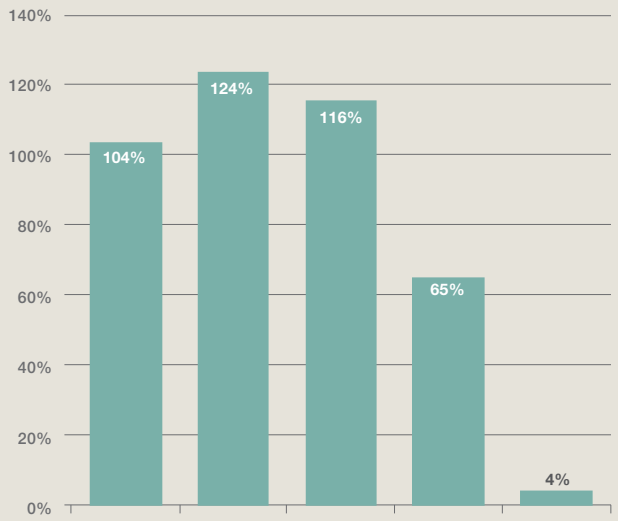
Under 35s now account for just 9% of the country's home owning population, down from 15% ten years ago, while in the private rented sector they now make up just over half of all households.

GRAPH 1

Change in tenure by age since 2001



	<35	35-44	45-54	55-64	65+
% of owner occupiers	9%	18%	22%	19%	32%



	<35	35-44	45-54	55-64	65+
% of private renters	51%	22%	13%	7%	8%

Source: English Housing Survey

of their most valued staff in a way they were reluctant to do before the economic recovery took hold in the capital. Demand for flats has been strongest from sharers and young professionals in the core and mid-market bracket due to hurdles to homeownership.

Prime commuter zone of London

Rental growth in the prime commuter zone has outperformed prime London over the past year. A surprisingly high proportion of tenants in the commuter zone are international, accounting for 37% of tenancies in 2013 of prime stock in the highest value areas. Demand from this group has been supplemented by domestic households who are renting before committing to a house purchase.

Properties that are within a town centre, close to local amenities such as schools and stations, remain more popular than rural locations. With this trend towards prime urban living also being seen in the strengthening prime regional sales market, rental stock is being put under pressure as some short term landlords take advantage of the increasing prices for prime property outside London.

TABLE 2

Rental markets Five year forecast values

	2014	2015	2016	2017	2018	5 years
UK Mainstream	2.0%	2.5%	4.0%	5.5%	5.5%	21.0%
London Mainstream	3.5%	3.5%	4.5%	6.0%	6.0%	25.8%
Prime London	2.5%	3.0%	4.5%	4.5%	4.5%	20.4%

Source: Savills Research

> "Properties that are within a town centre, close to local amenities such as schools, remain more popular than rural locations"
> Kirsty Lemond, Savills Research

OUTLOOK

Rental growth to remain strong

■ Looking forward, rental growth across the residential markets as a whole is likely to be relatively strong, driven by those unable or unwilling to enter the world of homeownership though there are some affordability constraints in the short term. Accordingly, rental growth will be dependant on the outlook for earnings growth and wider economic recovery. Much stronger employment growth in the professional, technological, media and communications sectors are likely to underpin demand in the prime and upper mainstream markets.

■ On the supply side; the stock shortages in the east of City will not last forever. From 2015 onwards an influx of new build, buy-to-let stock will come to the rental market as the development pipeline matures. This will suppress rental growth unless the development stock matches demand in terms of type and price, by meeting the need of corporate tenants so prominent in this market.

■ Across the wider prime London market; much depends on the political backdrop and the approach to overseas ownership of a building pipeline of new build stock; and correspondingly the extent to which this continues to be added to rental supply – something unlikely to impact significantly in the prime regional rental market.

Please contact us for further information

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