Market in Minutes
Prime Lettings

Q1 2012

SUMMARY

A mixed picture across the prime rental markets

■ The domestic prime rental market of South West London outperformed during the first quarter of 2012, rising by 2.3% compared to 1.4% across all prime London.

■ Despite having the strongest rental growth over the past year (3.2%), prime central London has seen lower annual growth compared to the previous year.

■ The weakened outlook in the financial markets will continue to cool the prime central London market, with price growth of 1.0% expected in 2012.

TABLE 1

Rental Value Movements to Q1 2012

	Prime Central London		Prime South West London	Prime North London	Prime East of City	Prime South East England
	All	Ultra prime				
Quarterly	0.9%	-0.5%	2.3%	-0.4%	0.2%	1.1%
Annual	3.2%	1.4%	-0.4%	-5.6%	1.8%	-3.4%

Table source: Savills Research

TABLE 2

RENTAL MARKETS

Five-year forecast values

Forecasts	2012	2013	2014	2015	2016
UK	3.0%	3.5%	3.5%	4.5%	4.5%
Prime Central London	1.0%	5.0%	4.5%	4.5%	4.5%

Table source: Savills Research

Overall, the prime rental markets of London saw values increase by a modest 1.4% in the first quarter of 2012, reversing the small falls seen in rents at the end of 2011. That leaves values just -0.2% below where they were this time last year. However, rental movements have been volatile over the past year and it was a mixed picture across London.

In the South East of England, prime rental values rose by 1.1% over the quarter as applicant levels increased. This follows a weaker second half of 2011 when rental values suffered due to a lack of demand and stock levels crept up. That reflected a slowdown in the sales market, which has seen stock pulled back into the lettings market. Due to the falls seen over this earlier period, rents have fallen by -3.4% over the past year.

Central London was the strongest performer within the prime rental markets over the last year (+3.2%). However, the rate of annual growth is lower, reflecting a much weaker Q1 compared to last year. In line with rental growth slowing, we have seen a fall in demand with applicants levels per property easing back.

This in part reflects a weakened outlook for the financial services sector, which makes a significant contribution to rental demand across all prime rental markets. Over two thirds of tenants are employed in this sector, second only to the East of City, and annual rental movements within this market have historically borne a close relationship with annual movements in the FTSE 100 (Graph 1).

Specifically, there has been lower demand from overseas tenants as the number of tenants posted abroad into London's financial markets has fallen. The proportion of new tenants from North America and Western Europe fell from 53% in the first half of 2011 to 40% in the second half, indicating that while the sales market benefited from the global turmoil, the lettings market has seen the opposite effect.

Domestic Demand

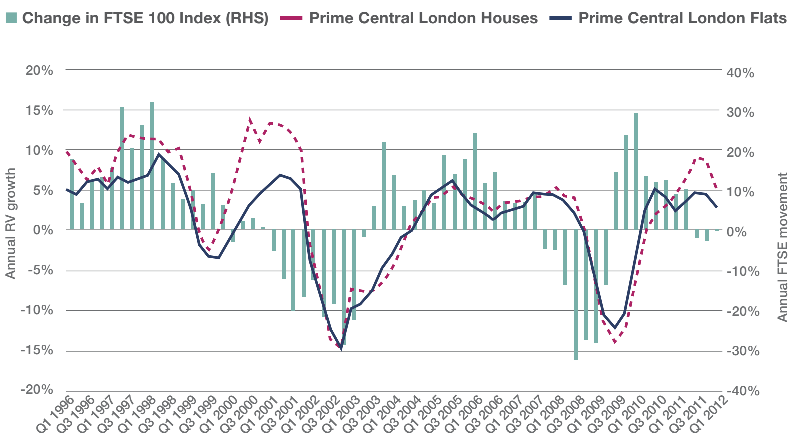
By contrast, the more domestic prime markets of South West London saw the strongest rental growth of 2.3% over the quarter, reversing the fall in rents seen during the second half of 2011. This increase was bolstered by strong demand, particularly for family houses on the back of stock shortages. Supply levels are nearly -25% below the long term average.

In the less stock constrained prime North London markets of Hampstead and Islington, rental values fell by -5.6% over the year. These markets have been particularly volatile over the period. The majority of these falls occurred towards the end of 2011 and reversed very strong growth in rents over the spring/summer market.

The East of City markets were initially the slowest to recover in the aftermath of the credit crunch. However, with rental growth of 1.8% over the year, the Docklands area is now recovering lost ground, as it has adjusted to a more diverse tenant profile and is now less reliant on the financial and business sectors. This has been a catalyst for renewed investor interest, particularly from Asian buyers.

GRAPH 1

PCL Rents Following Financial Markets



Graph source: Savills Research, FTSE 100

OUTLOOK

The market in 2012

- In the prime rental markets, London has the strongest outlook over the next five years. However, we expect growth in central London to slow throughout the remainder of the year as demand is closely linked to the outlook for employment in the financial and business services sector.
- In the prime markets the inability to buy will be much less of a driver of demand than in the mainstream markets, although we do expect this factor to support rental demand amongst young professionals, and therefore underpin rental growth in the 1 and 2 bedroom prime flat market.
- Supply of rental property is the other major consideration. A lack of new build activity will have an impact in some London markets, though this effect will be tempered by the increased buying activity from overseas investors over the recent past.
- Across the prime markets it will be the interaction with the strength of the sales market that primarily dictates whether there will be a rise in the amount of stock available to rent. Within the prime market of the South East we have already seen this begin to have an effect, which is likely to be carried over until next year as a weaker sales market has brought stock on to what is a relatively shallow prime rental market.

TABLE 3

Current Tenant Trends Across Prime Rental Markets

	Prime Central London	Prime South West	Prime North	Prime East
Red Hot	Families downsizing / relocating back in from the country. Corporate relocation to smaller properties	Single applicants		International
Warm	Self funded couples and individual tenants looking for smaller properties	Corporate professional couples Young families	Corporate budget flat relocations	Corporate relocation
Cool	Private overseas tenants looking for ultra prime properties Bankers	Relocation agents/corporate clients First time buyers	Self funded house applicants	UK
Cold	Moving into rented between sales	Tenants who haven't given notice yet and won't do so until they find somewhere suitable to rent	Self funded flat applicants	Large budgets
Frozen	Company tenancies	Ultra prime budgets Company tenancies	Corporate budget house relocations	Families

Table source: Savills Research

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