savills

Market in Minutes
Prime Lettings

Q3 2014

SUMMARY

London sees strongest quarterly growth in prime central, North and East of City areas

- In prime London, the highest annual rental growth was seen in prime North London and the East of City markets, driven by demand from young professional sharers or couples.
- Across London's commuter belt, rental growth averaged 1.3% over the past year with the strongest increase in the outer commuter zone, locations around an hour's journey from London.
- The prime rental market outlook will be underpinned by a strengthening economy and demand from expanding emerging sectors such as technology.

TABLE 1

Prime rental movements to Q3 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	0.4%	1.0%	-0.2%	0.3%	1.0%	1.4%	0.5%
Y on Y	1.4%	3.1%	1.2%	0.7%	4.5%	5.4%	1.3%
Since Peak	0.3%	-1.1%	-8.3%	2.8%	-1.1%	9.7%	-1.7%
£ per sq ft	£42	£62	£45	£29	£35	£35	£17

Source: Savills Research

The prime rental markets of London saw annual growth of 1.4% on the back of strong demand for 1 and 2 bedroom flats over the past three months in particular. Similar rental growth of 1.3% has been seen for prime properties in the commuter zone, however a significant value gap remains, with the average £ per sq ft less than half of that in prime London.

In the capital

In London, strong demand for smaller properties resulted in the highest quarterly rental growth in prime central London, prime North London and East of City locations, albeit from different tenant groups.

As is typical at this time of year, when the University year begins, wealthy international students drove the demand most evidently in prime central London due to the proximity of world class universities.

In contrast, young professional sharers or couples are drawn to less expensive prime locations such as Canary Wharf, Wapping or Islington. This reflects the fact both areas provide easy access to the financial services centres of Canary Wharf and the City, as well as the emerging tech centres in East London.

As a result of a younger generation driving prime rental growth, landlords may have to be prepared to adapt to their changing requirements. Being able to compete with new build developments which provide on-site facilities such as a concierge will become increasingly important, particularly in prime central London and in the East of City where our data shows the largest proportions of renters under the age of 29 choose to locate.

Among 30 to 60 year olds, Hampstead and St John's Wood in the North West and areas such as Fulham and Richmond in the South West have more appeal. Although rental growth here has been weaker over the past year than in the student/sharer markets, families continue to be attracted to the stock on offer and relative value for money achievable, particularly in the South West where the average £ per sq ft is just £29, the lowest across all prime London.

"Wealthy international students drove demand most evidently in prime central London" Lucian Cook, Savills Research

1.4%
Year on year annual growth across London's prime rental markets

£62
Annual price per square foot of rental property in prime central London

5.4%
Year on year annual growth across East of City prime rental markets

£17
The price per square foot of rental property in the prime commuter zone

Prime commuter zone

Across London's commuter belt, the strongest annual growth was seen in the outer commuter zone, with average rents rising 2.5%.

Cambridge, Farnham and Winchester, all particular favourites with families, saw the highest growth, due to their popularity for schooling and easy access to London.

Regardless of location, since the peak of the prime rental market in 2008, 3 bed properties have seen the strongest growth with average rental values across the prime commuter zone 3.0% above their peak.

However, over the past three months, 1 and 2 bed properties have seen the strongest growth, at 1.3%. This has been driven partly by young sharers unable to afford to buy, but the most significant factor is young professionals relocating for work as the economic recovery outside of London continues to strengthen.

OUTLOOK

Recovery underpins demand

As demand for rental properties continues to grow due to affordability constraints in the housing market, our forecast for rental growth over the next five years is strong. The strengthening UK economic recovery and expanding emerging sectors such as technology and telecommunications will continue to underpin demand for prime rental property.

A potential risk to the sector is the level of new stock being brought to the market by overseas investors attracted by the strong capital growth seen in prime London since the downturn rather than rental yield.

In locations of high supply we expect rents to come under pressure, with a potential dampening effect on rental growth across the wider prime rental market despite a broader and deeper pool of tenants.

In the commuter zone, stock levels will be dependent on the sentiment of accidental landlords who have found themselves renting out their homes for longer than they would have originally expected, but who are increasingly looking to sell as the sales market strengthens. However, some may decide to continue renting out their property as capital value growth in prime commuter zone locations is forecast to overtake London over the next five years.

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