PCL Lettings Index: January 2018

Intelligence

Index: 162.3

by Tom Bill February 08, 2018

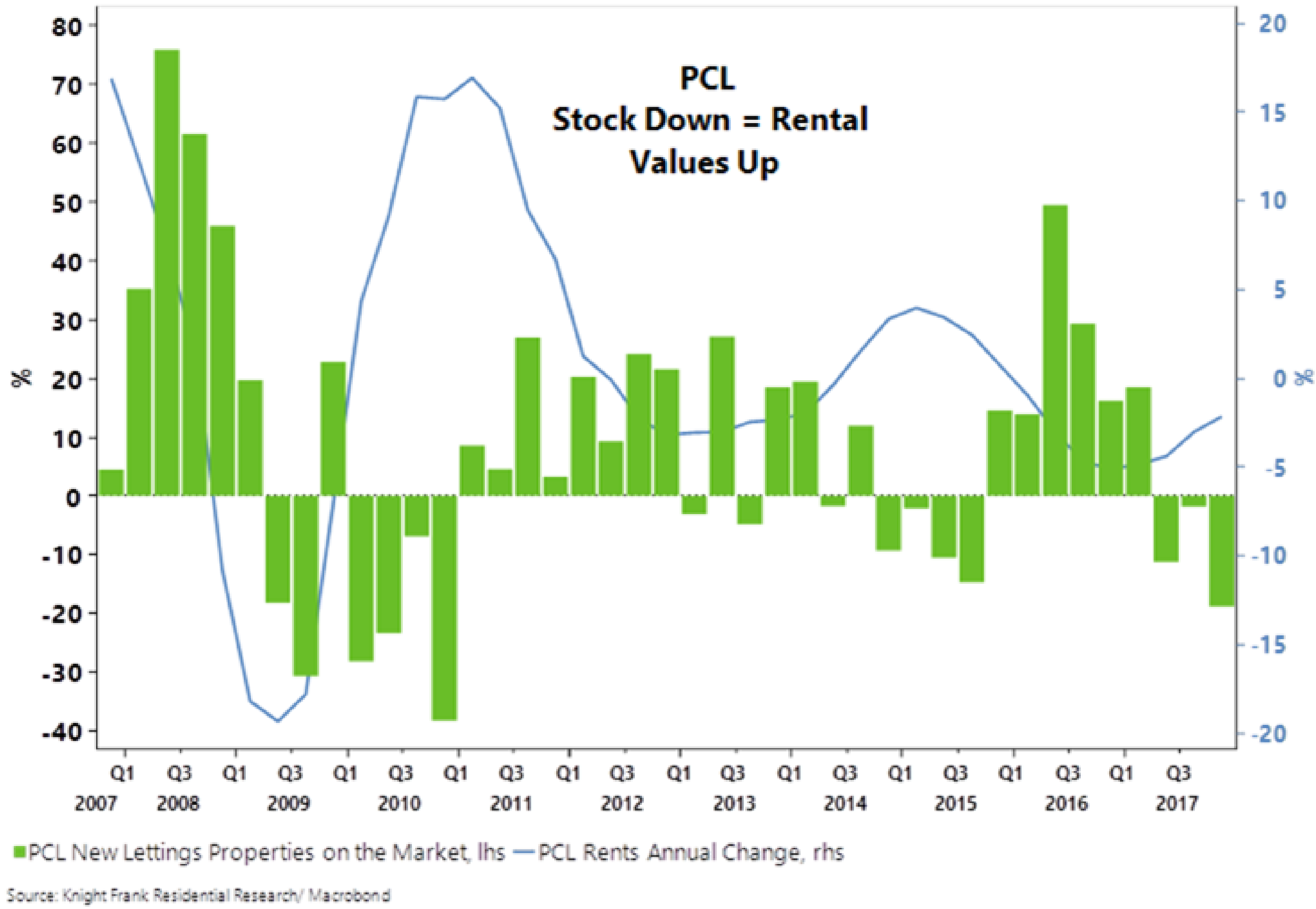
Average rental values in prime central London fell 2.1% in the year to January. It was the lowest rate of decline since April 2016, suggesting the falls recorded over the last two years are bottoming out.

Falling rents are the product of high levels of stock, which means tenants have had the upper hand in rent negotiations.

High stock levels were largely a product of uncertainty surrounding the short-term prospects for price growth in the sales market, prompting owners to let out their property rather than sell. However, there are indications that the lettings market is poised to tip back in favour of landlords as stock levels moderate.

This moderation is the result of two factors. First, there has been a natural re-balancing of the market as lower rental values mean more landlords decide to sell. Second, the sales market has begun to strengthen as higher transaction costs become more fully absorbed.

This change in stock levels is highlighted in the chart below, which shows that the number of new lettings properties listed in the final quarter of 2017 fell by 19% year-on-year, according to Knight Frank data. It was the largest such fall in seven years.



An analysis of Rightmove data in prime central London shows an identical drop over the same period while LonRes data shows a 13% decline.

The chart also demonstrates that high levels of supply in recent years are in large part attributable to a 49% year-on-year increase in the second quarter of 2016, a period that followed the introduction of a 3% stamp duty surcharge for landlords. It was the biggest jump since 2008 and kept stock levels comparatively high over the following 12 months.

As new supply now moderates, demand continues to grow and there was a 5% increase in the number of tenancies agreed in 2017 versus the previous year, LonRes data shows. Knight Frank agreed 12% more tenancies last year than in 2016.

We forecast that average rental values will grow 0.5% in prime central London this year as supply continues to re-balance.

Leading indicators of demand underpin this forecast. The number of viewings was 17% higher in 2017 than 2016 and the number of new prospective tenants registering was 16% up on the previous year.