CHESTERTON HUMBERTS RESEARCH BRIEF – DECEMBER 2011

LONDON RESIDENTIAL LETTINGS MARKET SNAPSHOT: Q3 2011

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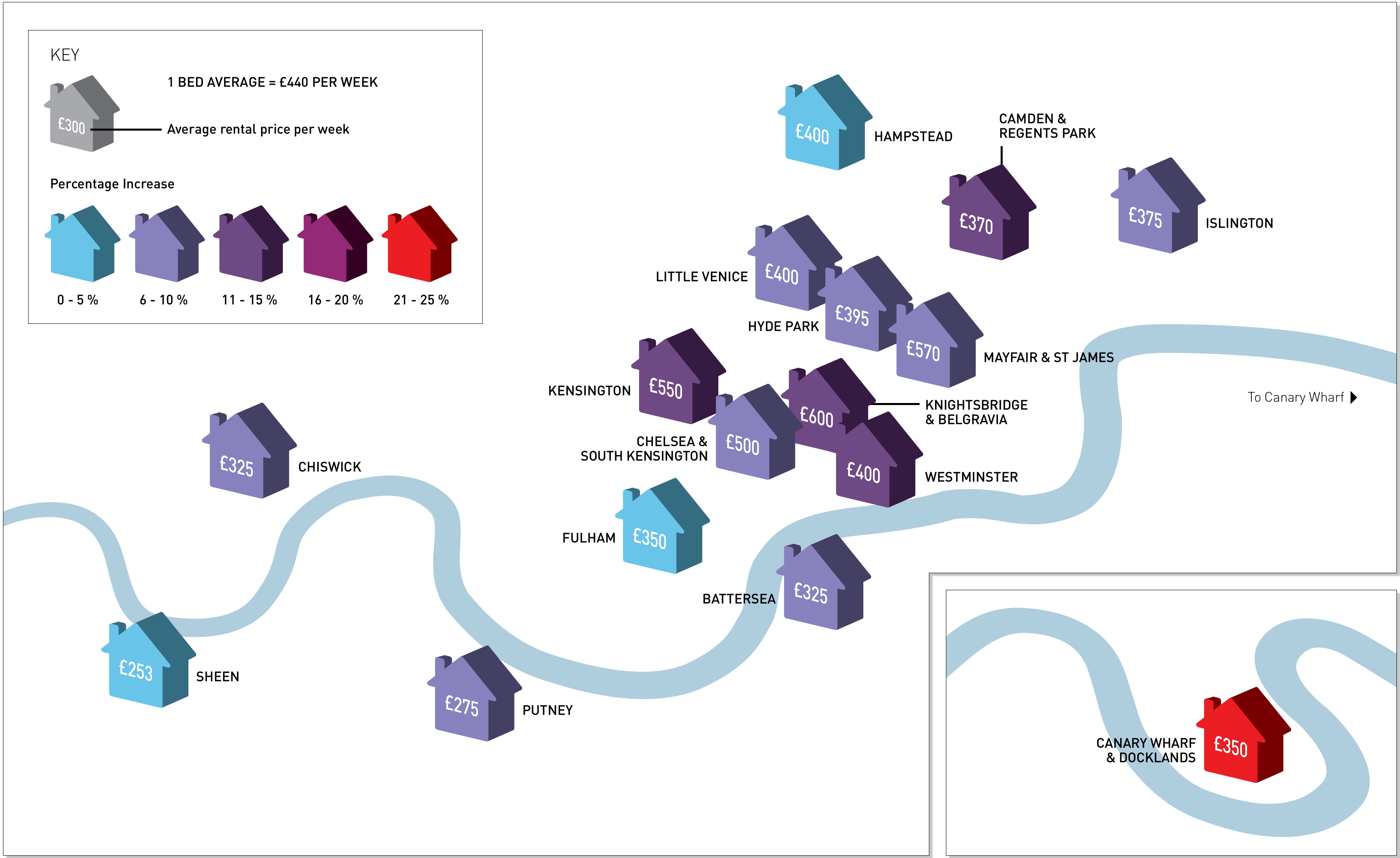
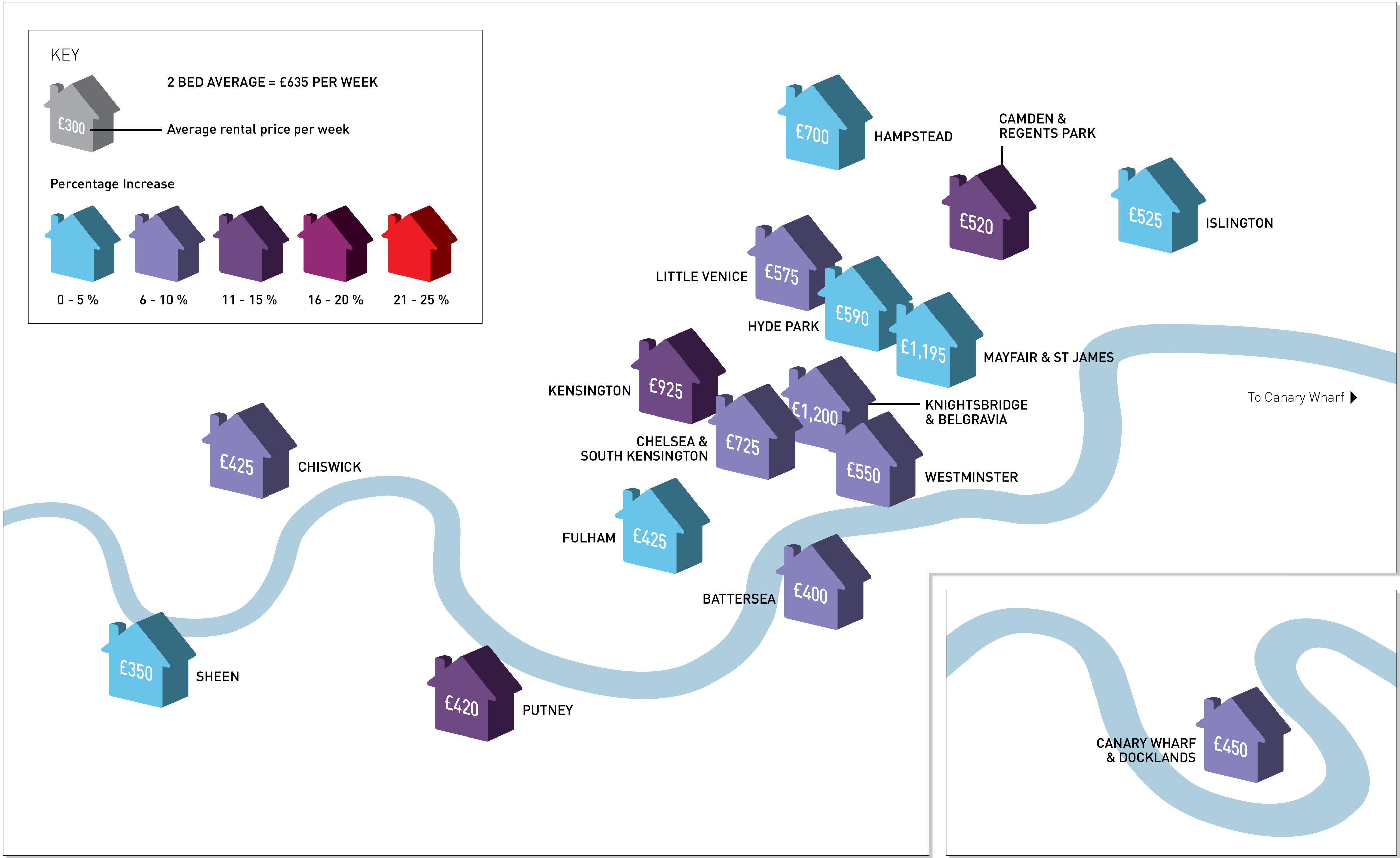
"Canary Wharf recorded the strongest rental growth for 1-bed flats during the first three quarters of the year while Putney and Kensington saw the highest increase in rents for 2-bed flats."

- The residential lettings market in London has enjoyed a very buoyant year with rents reaching record levels. Average rents in the prime locations covered by Chesterton Humberts' offices rose 7.7% in the year to end September 2011, to stand at £875 per week.
- Of the locations covered by our offices, Canary Wharf recorded the strongest rental growth for 1-bed flats (25%) during the first three quarters of the year while Putney and Kensington saw the highest increase in rents for 2-bed flats (12.5%).
- Mayfair is the most expensive with 1-bed flats at around £675/week rising to £2,500/week for 3-bed properties. In the 4-bed+ single family home sector, Battersea, Chiswick and Canary Wharf are the least expensive areas with weekly rentals averaging around £750. At the top end of this market segment, Knightsbridge and Belgravia are achieving average rents of around £3,300/week.
- Tenant demand has been consistently strong for most of the year, however September, traditionally the busiest month of the year, proved to be a bumper month with our Islington, Knightsbridge, Hyde Park and Fulham offices all reporting record transaction volumes.
- The tenant mix has become more diverse as many households have become "forced renters", unable to access the sales market either due to affordability issues or simply lack of choice in their preferred locations. Corporate tenants remain prominent and are typically renters of choice with fixed budgets either making accommodation arrangements themselves or via relocation agents. The student market is also strong and non-EU HE students can often arrive with sizeable budgets seeking quality accommodation in prime locations.
- Affordability issues are no longer limited to the sales market and are increasingly apparent in the lettings sector. This has prompted a rise in the number of flatshares across the capital which typically implies some degree of compromise on the part of renters with regard to location, budget and even the property itself.
- Stock levels, especially for good quality 1-bed and 2-bed flats, are low in many locations which is likely to remain a feature of the market for some time to come. Stock shortages have persuaded a growing number of tenants to renew their contracts which has benefited landlords with regard to continuity of income, reduced void periods and the comfort of holding on to good tenants.
- Investor interest is hotting up as evidenced by BTL mortgage lending in q3 2011 which was the highest recorded in both volume and value terms since q4 2008. Major corporate players are also entering the market with Grainger and Bouygues announcing a JV partnership to develop and manage over 1,000 build-to-let units and Swedish company Akelius rumoured to be looking to create a rental portfolio of up to 10,000 units both in and around the London area. This has been triggered by the sustained strong performance of the private rented sector and its continuing expansion in overall size. According to the Mayor's Office around 20% of London's households are in privately rented accommodation, having risen from 15% in 2000.
- Looking ahead, the lettings market should receive a considerable short term boost from London's hosting of the Olympic Games. The organisers are expecting ticket sales of 8.8 million for the Olympics and a further 2 million for the Paralympics, 71% of which will be at London venues. A breakdown of the anticipated origin of ticket holders reveals that around 25% are expected to come from outside the UK and a further 42% from outside London. This translates into a potential 1,917,000 visitors from outside the UK attending London venue events and it is likely that a percentage of those attending London events from the more distant parts of the UK may well require temporary accommodation.

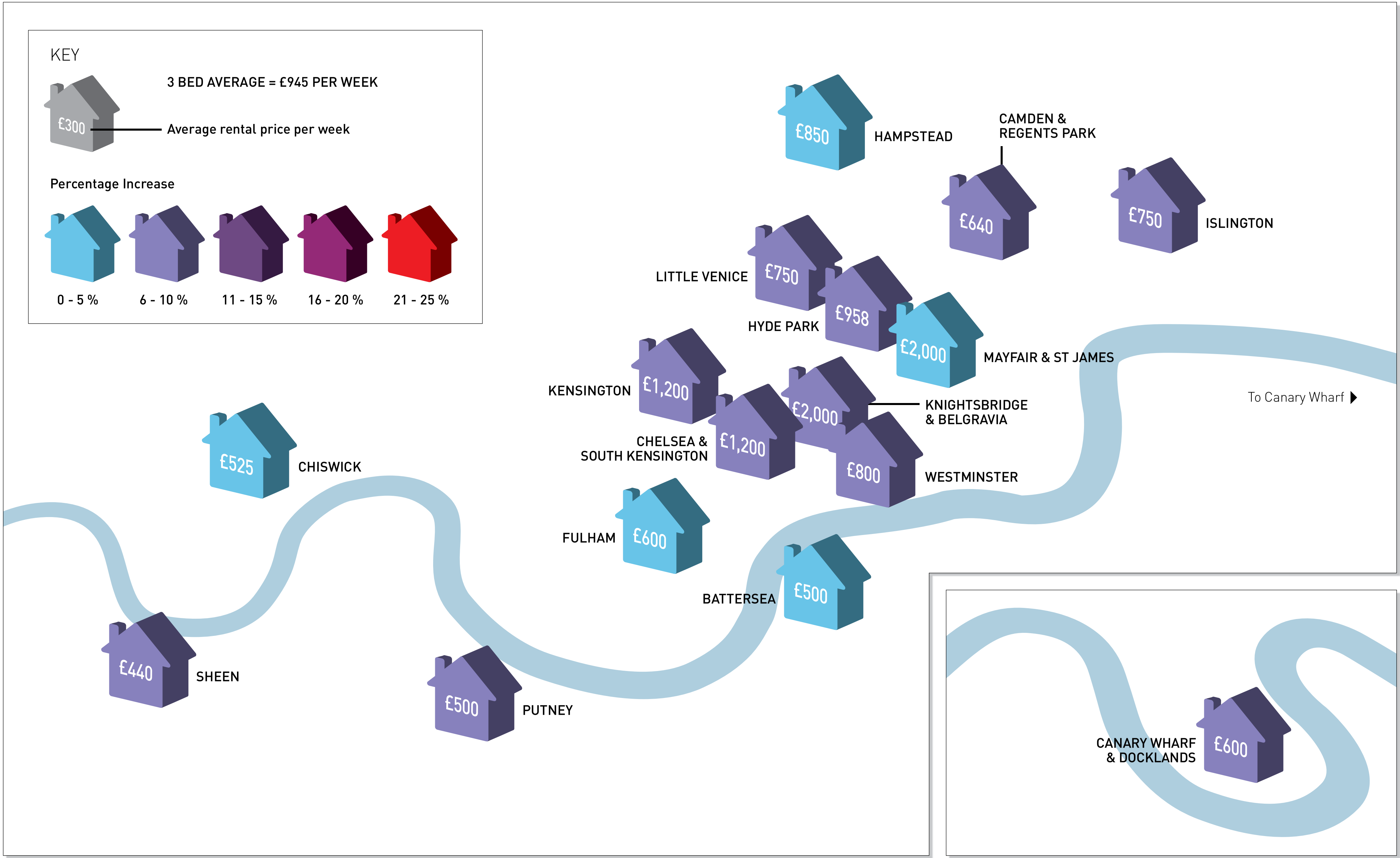
1 BED APARTMENT: Q3 2011 AVERAGE PRS RENT: AVERAGE RENTAL GROWTH, JANUARY – SEPTEMBER 2011



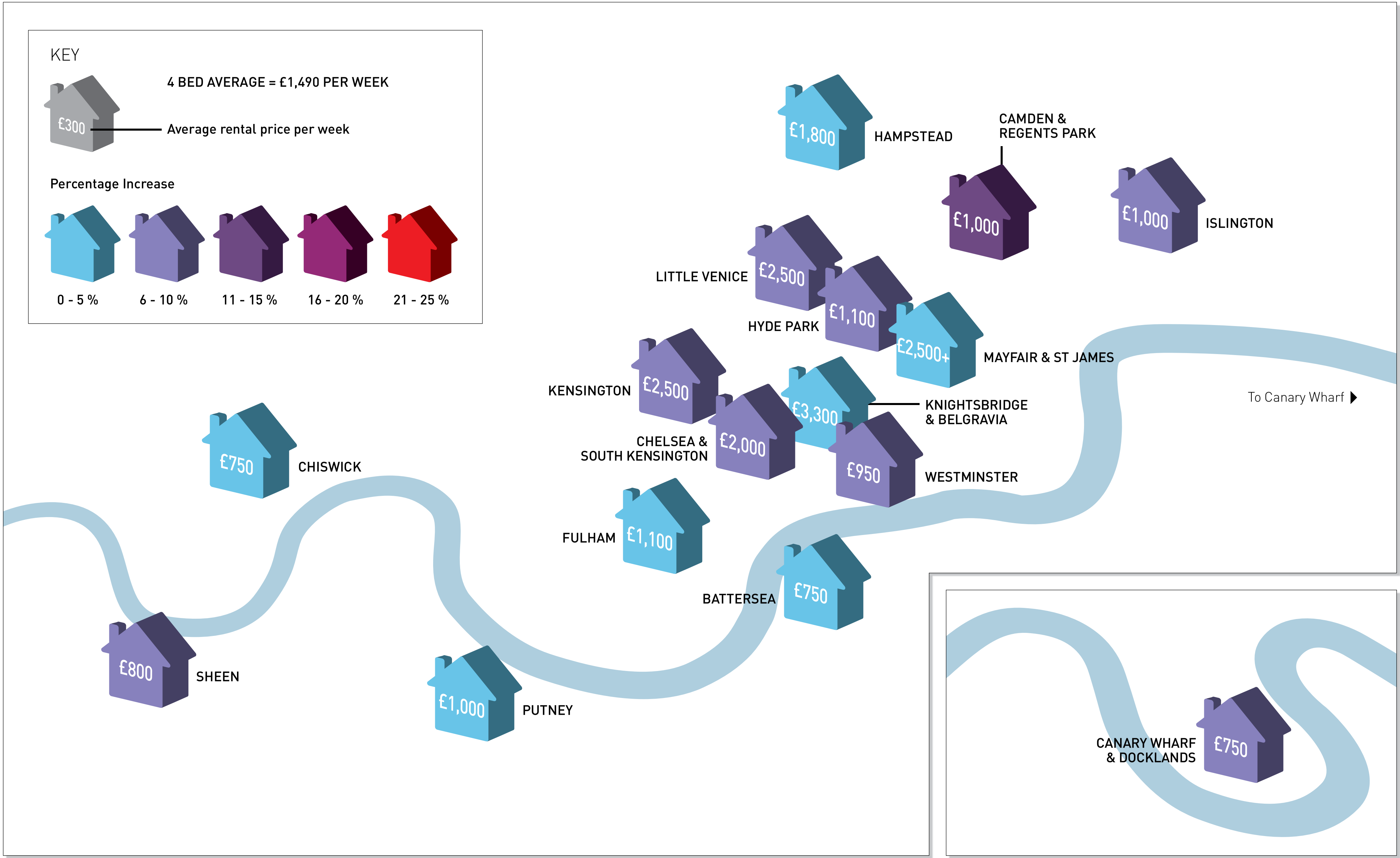
2 BED APARTMENT: Q3 2011 AVERAGE PRS RENT: AVERAGE RENTAL GROWTH, JANUARY – SEPTEMBER 2011



3 BED APARTMENT: Q3 2011 AVERAGE PRS RENT: AVERAGE RENTAL GROWTH, JANUARY – SEPTEMBER 2011

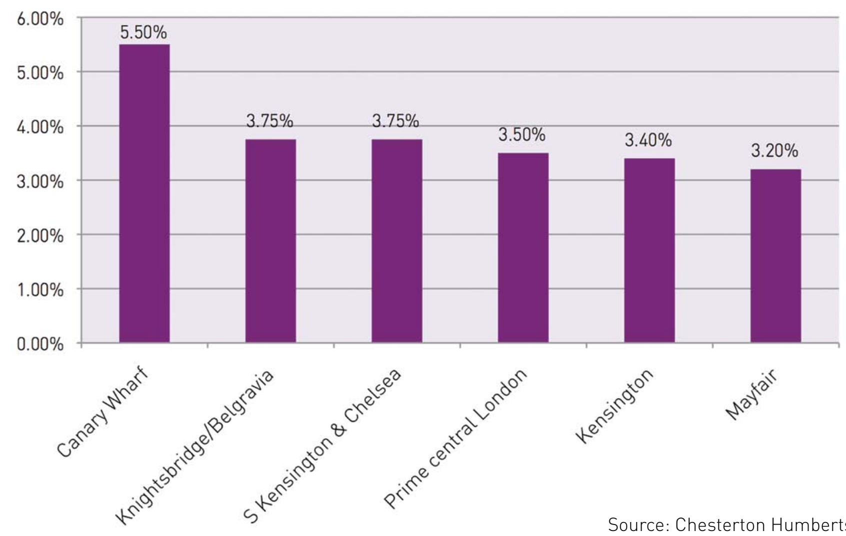


4 BED SINGLE FAMILY HOUSE: Q3 2011 AVERAGE PRS RENT: AVERAGE RENTAL GROWTH, JANUARY – SEPTEMBER 2011



Yields have remained broadly stable over the first nine months of the year with income growth and capital growth broadly matching one another. Gross initial yields for good quality 1-2 bed apartments in the prime central London locations ranged between 3.2% and 3.9% as at September 2011. Away from central London, good quality 1-2 bed apartments in Canary Wharf were achieving gross yields of between 5% and 6%. Looking ahead, rental growth in the prime locations may well drive yields higher if stock shortages persist.

Figure 1: Gross prime yields as at September 2011



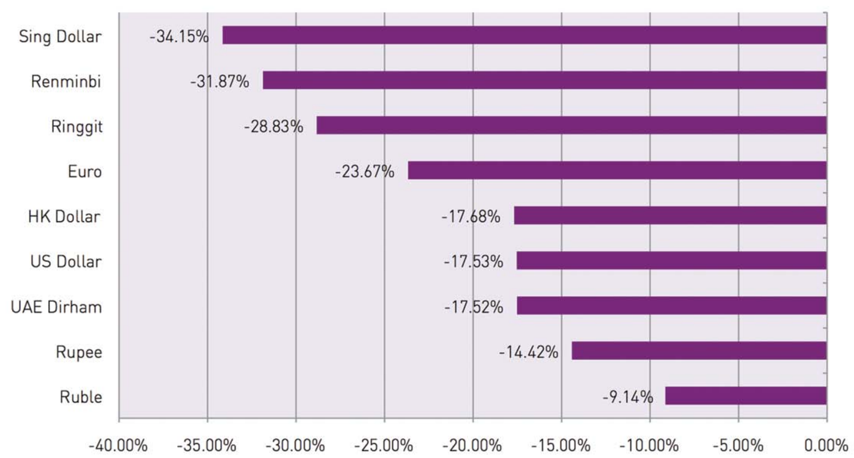
Source: Chesterton Humberts Research

Notes: These yields are based on single unit transactions and reflect a basic income over purchase price assessment with zero gearing. They do not reflect full investment valuations. Prime central London is defined as the area covering Knightsbridge/Belgravia, South Kensington & Chelsea, Kensington and Mayfair.

“Investors typically turn to hard assets in times of economic turbulence and residential property is looking increasingly appealing in comparison to other asset classes.”

Investors typically turn to hard assets in times of economic turbulence and residential property is looking increasingly appealing in comparison to other asset classes. The characteristically volatile stock market is currently even more susceptible to fluctuation given the extent of the prevailing economic and financial uncertainty while gilts recently touched record low yields. Meanwhile continuing low interest rates are keeping investors away from cash. In contrast to precious metals and fine wines, property is a utilitarian asset which can still generate income even if there is little or no capital growth. Moreover, for certain overseas investors the weakness of Sterling means that they can benefit substantially from exchange rate differentials. In the case of Singapore and China the currency movement has exceeded 30% over the past four years which effectively acts as a hefty discount.

Figure 2: Exchange rate movement: £ v selected currencies: q1 2007-q3 2011



Source: Oanda

CONTACT

Chesterton Humberts is a multi-disciplinary property business covering Residential Sales & Lettings, International, Rural and Commercial with 70 offices nationally and international offices in Australia, Barbados, France, Gibraltar, Italy, Russia, Singapore, South Africa, United Arab Emirates. Should you have any questions regarding this report or wish for any other information concerning the London residential lettings market please do not hesitate to contact any of the names listed below.

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