



Prime Central London Lettings Report Q1 2019

This report analyses the performance of rental units in LCP's managed portfolio in Prime Central London (PCL). For more research reports, visit www.londoncentralportfolio.com

PCL Rental Value Changes

	Renewals
Quarterly	+0.2%
Annually	+0.4%

	Re-Lets
Quarterly	+0.1%
Annually	-1.3%

Average Void Period

	Days
Quarterly	32
Annually	28

Despite political uncertainty permeating all aspects of the UK economy, the rental market is holding steady. In Q1, rents increased of 0.2% for renewals, whilst re-lets rose by 0.1%. Voids (calculated from the day a property falls vacant to when a new tenant is installed) stand at just 31 days. Occupancy is currently running at 94%.

Figure 1 Whilst rents are not showing significant increases, the length of tenancies continues to rise. These now stand at 455 days on average.

Figure 1: Duration of Stays (Days)

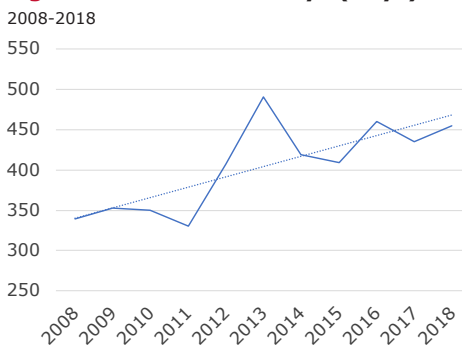


Figure 2: Average Void Period (Days)

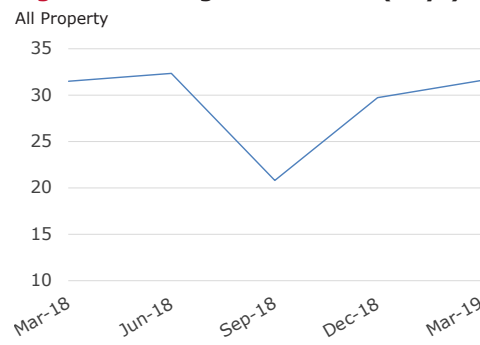


Figure 2 Voids stand at 31 days for Q1 2019, the same as Q1 2018. They fell over the summer months, resulting in an average void of 28 days.

Figure 3 The tenant mix is primarily international with less than 20% from the UK. Despite fears of a mass exodus following the Brexit vote, citizens of the EU 27 still account for over 40%.

Figure 3: Tenants by Region

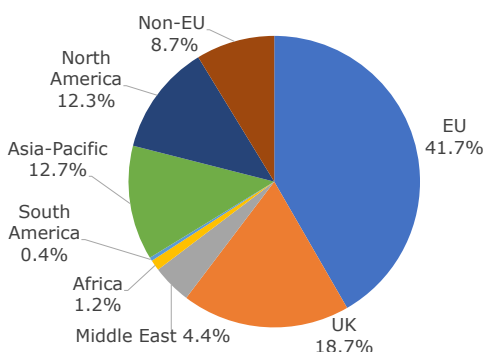


Figure 4: Landlord by Region

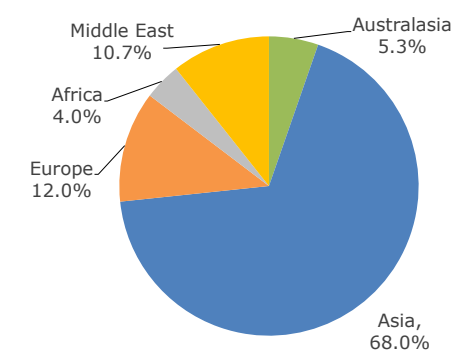


Figure 4 The landlord profile is distinctly different from the tenant profile with Asia dominating overseas investment, making up 68% of all landlords.

Figure 5 Over 50% of tenants are from the Financial Sector. Whilst employed predominantly in the City or Canary Wharf they want the "PCL experience". The second biggest sectors are Professional Services and HNW Students.

Figure 5: Tenants by Occupation

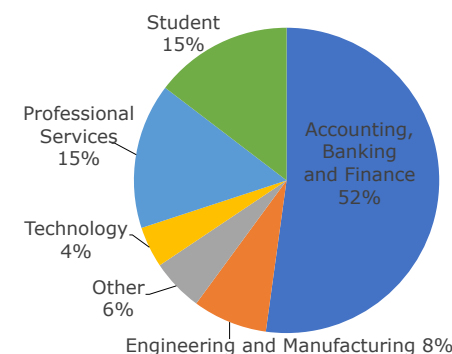


Figure 6: Tenants by Age Group

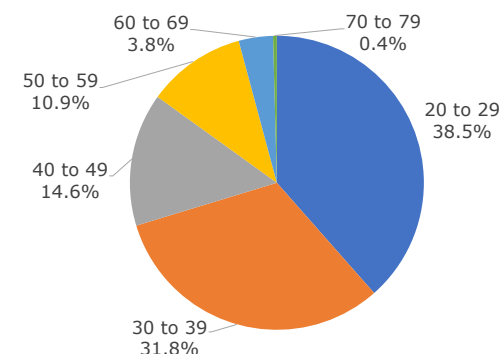


Figure 6 At just over 70%, the majority of tenants are millennials. This group is the most globally mobile and landlords need to understand their desire for hotel-style accommodation to maximise returns.



Figure 7 The traditional areas of Mayfair and Knightsbridge still command the highest rents per annum, with an average of £60.49/sq.ft. Kensington, South Kensington and Marylebone lead the rest at £48.32/sq.ft. In general, areas seeing lower rents are “up and coming” postcodes of PCL, which will increase with continued gentrification.

Figure 7: Annual Rents by PCL Area

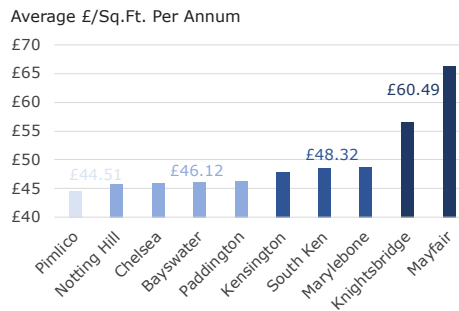


Figure 8 There are clear seasonal trends, with most activity occurring in late spring and in September when both students and corporate executives tend to relocate. These peaks traditionally coincide with the sales market although its seasonality has been more muted as transactions remain suppressed.

Figure 8: Seasonal Rental Activity

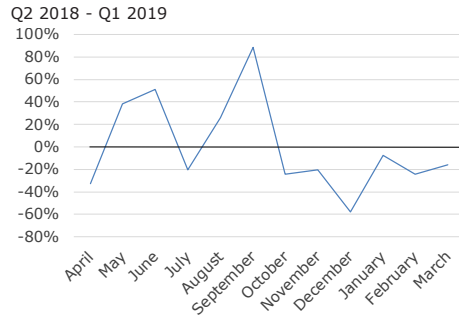


Figure 9 The prevailing trend amongst tenants is the move to smaller units. Prime locations are prioritised over size where there is price sensitivity. As a result, significant yield premiums are achieved for smaller flats. Increasingly therefore, attention needs to be placed on clever space optimisation and stylish interiors, which tenants require.

Figure 9: Yield Premium - Small Units

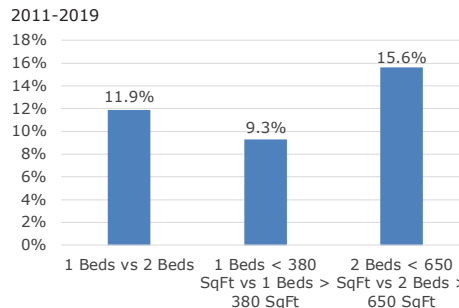
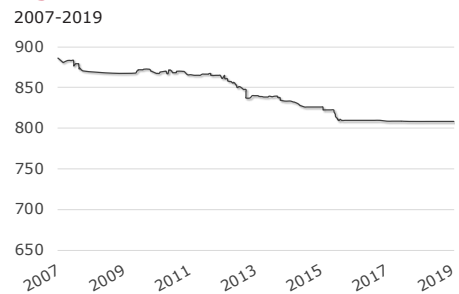


Figure 10 The increased demand for smaller units by tenants amidst general corporate belt-tightening since the Global Financial Crisis, has led to a notable decrease in the size of units available to rent. An average two bedroom flat has fallen by 8.8%. The size of one bedroom flats are increasingly no more than minimum space standards of 37sq.m.

Figure 10: Size of 2 Bed Units



About LCP

Recognising the importance of PCL as an alternative asset class, LCP was established in 1990 to offer a one-stop service representing the interests of investors looking to maximise their returns.

LCP accesses whole-of-market for the best opportunities, from single flats to freehold blocks, serviced apartments and hotels, using proprietary financial modelling to evaluate each investment.

LCP then undertakes the development and design of the assets and provides letting, management and concierge services, providing a convenient, accountable service.

Contact

For further information contact:
James Harbach, Senior Investment Manager
james@londoncentralportfolio.com or
Liam Monaghan, Head of Letting and Property Management,
liam@londoncentralportfolio.com
+44(0)20 7723 1733

Market Commentary

Naomi Heaton, CEO of LCP comments “Despite the multitude of external factors currently crippling the sales market, the rental market is proving to be more stable. Q1 saw rents increase slightly over the quarter for both renewals and re-lets by 0.2% and 0.1% respectively. Annually, renewals are up 0.4%.

“As a rule, rents are correlated to the cost of purchasing a property. With continuing low borrowing costs and prices falling, we would not expect much upward movement. On top of this, landlords remain concerned about Brexit, putting tenants into a strong negotiating position.

“Nevertheless the average length of tenancies is increasing, standing at 455 days in 2018 and the anticipated exodus of citizens from the EU27 following the Brexit vote has not materialised. They currently account for over 40% of the tenant base which is primarily international, with UK tenants making up under 20%.

“Not surprisingly, the financial sector and millennials represent the biggest proportion of tenants. The continuing trend is for renting smaller units as budget conscious tenants prioritise prime locations over size. Consequently one bedroom flats and smaller units return better yields than their larger equivalents. Clever space optimisation and stylish interiors are becoming ever-more demanded.”

Data: London Central Portfolio Limited conducts regular audits of all assets under management. This data has been used to produce the information contained in this report.

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