RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

SALES VOLUMES STRENGTHEN IN NOVEMBER AS ASKING PRICES ADJUST

Despite a backdrop of political uncertainty, sales volumes are rising as lower asking prices release pent-up demand, says Tom Bill

December 2016

November was the second highest month for sales volumes in 2016 after a stamp duty spike in March

The number of Knight Frank sales in November was **higher than the same month in 2014 and 2015**

Year-on-year decline in sales volumes **narrowed to -19% in November from -38% in June**

Annual growth declined to **-6.3% in December**

Macro View: The difficulty of assumptions in 2017

TOM BILL
Head of London Residential Research

"As the 2016 sales volumes data shows, sufficient pent-up demand has formed in the last two years for buyers to act when they perceive value"

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The second half of 2016 was marked by a steady improvement in sales volumes as vendors lowered asking prices to reflect the changed regulatory backdrop in prime central London.

An analysis of sales volumes for this year shows that following a spike in March ahead of a stamp duty hike and fewer transactions in subsequent months as uncertainty around the EU referendum intensified, activity has risen steadily in recent months.

This pattern is in contrast to last year, when there was a pick-up following the May general election, as figure 2 shows.

In respect of the first eleven months of 2016, Knight Frank data shows November accounted for 14.1% of total sales, the second highest month after March. Indeed, the number of Knight Frank sales was higher in November 2016 than the same month in 2014 and 2015.

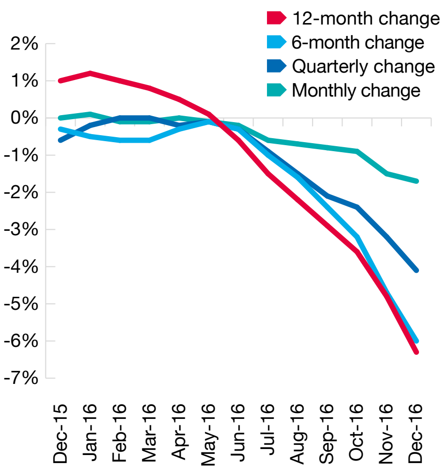
We observe a similar though less marked uptick in the wider London market, with November accounting for 10.1% of sales recorded on LonRes in the first eleven months of 2016, the third highest figure after 10.8% in February and 18% in March.

Further analysis shows to what extent transactions have stabilised since the summer. While sales volumes were -38% lower in June compared to 2015, this gap had halved to -19% by November. The equivalent figure compared to 2014 narrowed to -18% from -45% over the same time period.

Whether strengthening sales volumes in the second half of 2016 will provide a reliable indicator for the first six months of 2017 remains to be seen. Political uncertainty is unlikely to subside in the early part of next year as the UK triggers the process to leave the European Union, Donald Trump potentially charts a new economic course in the US and ahead of elections in several European countries.

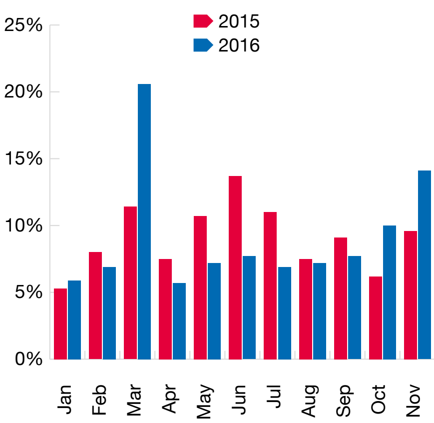
However, as the 2016 sales volumes data shows, sufficient pent-up demand has formed for buyers to act when they perceive value. Average values fell -6.3% in the year to December 2016, and we expect to see broadly flat price growth in 2017 as declines start to bottom out.

FIGURE 1
Price growth in prime central London



Source: Knight Frank Research

FIGURE 2
Sales volumes increased in late 2016
Percentage of total sales, January to November



Source: Knight Frank Research

FIGURE 3

Price growth in prime central London by area in the year to December 2016

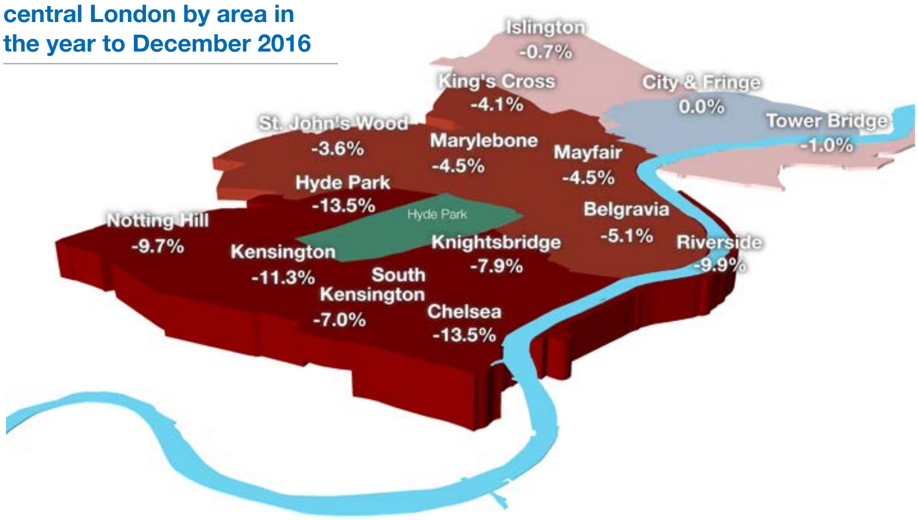


FIGURE 4

Price growth by price band and property type

Prime Central London Index **5,982.3**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-1.3%	-2.1%	-1.5%	-1.5%	-1.9%	-1.7%	-1.7%
3 months	-3.5%	-4.4%	-4.3%	-3.8%	-3.8%	-4.2%	-3.8%
6 months	-5.2%	-6.8%	-6.2%	-5.7%	-5.6%	-6.3%	-5.7%
1 year	-3.3%	-6.2%	-6.5%	-7.3%	-6.8%	-6.8%	-6.1%
YTD	-3.3%	-6.2%	-6.5%	-7.3%	-6.8%	-6.8%	-6.1%

THE DIFFICULTY OF ASSUMPTIONS IN 2017

Sales volumes in prime central London stabilised at the end of 2016 following a two-year period during which buyers and sellers absorbed a succession of tax changes.

The extent to which market activity normalises next year is difficult to assess due to the shifting political and economic backdrop.

Following the Federal Reserve's decision to raise the base rate in December and its signal there would be three rises in 2017, the dollar has strengthened against the pound, boosting the buying power of those denominated in US dollars and dollar-pegged currencies.

Fuelled by the expectation of a Trump stimulus package, there is a belief the dollar will remain broadly strong versus the pound in 2017 while the Bank of England keeps rates low. However, assumptions about the strength of the dollar are linked to the wider potential for political uncertainty. For example, there are concerns a strong dollar could affect US competitiveness, which could increase the likelihood of trade tariffs and protectionism in the US and beyond.

Together with the prospect of continued Brexit-related volatility around sterling, anticipating the correct moment in 2017 to buy London property from a currency perspective is likely to remain high-risk.

Meanwhile, any assumption that the UK will start Brexit negotiations from a position of weakness will recede as economic self-interest takes precedence over shorter-term political motives, said Savvas Savouri, chief economist at asset manager Toscafund.

"There is a comprehensive lattice-work of cross ownerships connecting corporate fortunes between the economies of the EU27 and that of the UK," he said. "Consequently were tariff walls to be erected between Britain and the Single Market, a great many EU27 firms would be forced to reveal share price harming financial impairments; from horrible profit warnings to balance sheet damaging asset write-downs."

DATA DIGEST

The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. 'Prime central London' is defined in the index as covering: Belgravia, Chelsea, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Barnes, Canary Wharf, Chiswick, Clapham, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

* Riverside in prime central London covers the Thames riverfront from Battersea Bridge in the west to Tower Bridge in the east, including London's South Bank. The City Fringe encompasses the half-mile fringe surrounding most of the City including Clerkenwell and Farringdon in the west and Shoreditch and Whitechapel in the east.

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