RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

This report is based on repeat valuations of second-hand stock and does not include new-build property, although units from completed developments are included over time.

STABILITY RETURNS TO PRIME CENTRAL LONDON DESPITE UNCERTAIN POLITICAL BACKDROP

There are signs that the growth in activity experienced in the final quarter of 2016 is carrying over into 2017, says Tom Bill

January 2017

Annual growth was -6.7% in January

Transaction levels were higher in the fourth quarter of 2016 than the same period in 2015 or 2014

The number of new prospective buyers was 14% higher year-on-year in the last quarter of 2016

The number of offers made was **13% up year-on-year in the final quarter of 2016**

Macroview: Banks and a hard Brexit

Signs of stability returned to the prime central London sales market in the final quarter of 2016, which appears to be carrying into 2017.

The primary driver for this trend is the fact vendors are increasingly reflecting higher transaction costs in their asking prices, which is narrowing the gap with buyer expectations. In some instances the EU referendum was the catalyst for overdue price reductions.

While Brexit and Donald Trump dominate the wider political and economic landscape, it would be wrong to overstate their impact on the prime London property market.

Higher rates of stamp duty is still a bigger issue than the prospect of article 50 being triggered in March.

Improved trading conditions meant Knight Frank undertook more exchanges in the fourth quarter of 2016 than in 2015 or 2014. In a sign this trend has carried over into 2017, the number of Knight Frank exchanges in January was higher than in the same month in the previous two years and was comfortably ahead of the ten-year average for January.

Conversely, the number of exchanges between January and September 2016 was 20.6% down on the same period in 2015.

There are further signs of a strengthening market. While the number of new prospective buyers was 6% higher year-on-year between January and September, this gap rose to 14% in the final quarter.

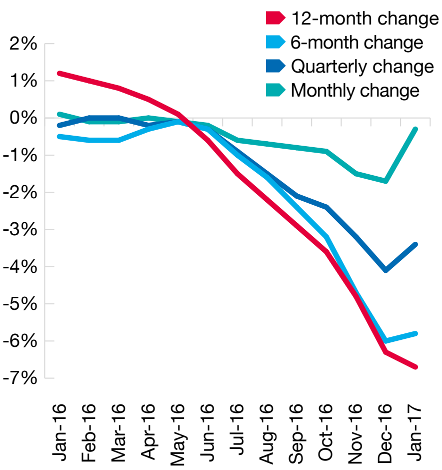
However, it remains difficult to draw firm conclusions for what this may mean in 2017 given the high level of political uncertainty surrounding Brexit and the new US President.

Indeed, figures for the wider market indicate a relatively subdued end to 2016. LonRes data, which captures more sales but is less representative of activity in PCL markets further east, showed a decline of 23% in the final quarter.

Meanwhile, price growth began to show signs of bottoming out, as figure 1 shows. While there was an annual decline of 6.7% in January, we forecast a relatively flat market in terms of price recovery in 2017.

FIGURE 1

Price growth in prime central London

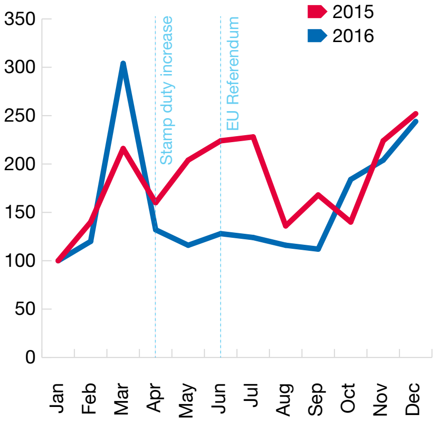


Source: Knight Frank Research

FIGURE 2

Sales volumes rose in the final quarter

Figures re-based to 100



Source: Knight Frank Research

TOM BILL

Head of London Residential Research

"Knight Frank undertook more exchanges in the fourth quarter of 2016 than in 2015 or 2014"

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MACROVIEW | BANKS AND A ‘HARD’ BREXIT

London-based banks have shifted their position in relation to Brexit in recent weeks.

Operating within the single market using so-called passporting rights has slipped down the agenda following a speech by Prime Minister Theresa May that signalled the UK would not seek to remain in the single market.

It comes as the financial services industry, which plays an important role driving demand in the prime central London sales and lettings markets, is already dealing with the twin issues of ultra-low interest rates and tighter regulation.

“The major banks were already streamlining their operations,” said Andrew Breach, head of financial services at executive search company New Street, who is in regular contact with senior bankers in London and Europe.

While he expects Brexit to accelerate this process, he believes the impact should not be overstated.

“London has shown over the centuries that it is resilient and flexible enough to remain the number one or number two financial centre in the world. The plan will be to retain as many staff in London as possible but I would anticipate somewhere between 10% and 20% of staff could be affected, although it depends a lot on the negotiations.”

There are also practical barriers to moving large numbers of staff away from London, he said.

“A bank can announce that it plans to move 1,500 people but it may only end up moving 500 because not everyone will want to uproot their life. Also, these are people with 10 or 15 years’ experience who cannot easily be replaced, which could lead to staffing shortfalls in Europe.”

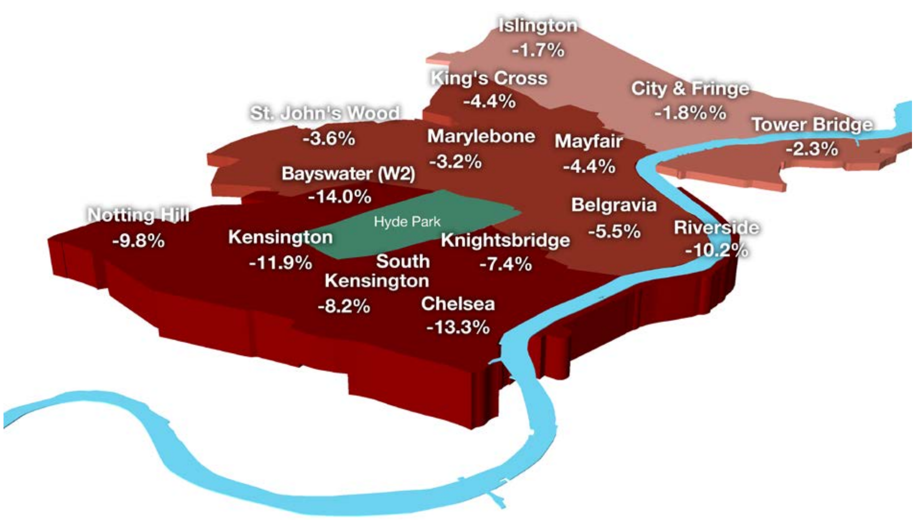
“Compliance and risk is one of the hottest markets in London for staff at the moment but you can’t suddenly create that sort of knowledge elsewhere, and these are people that banks must have”.

FIGURE 3
Price growth by price band and property type

Prime Central London Index | **5,967.1**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.1%	-0.1%	-0.4%	-0.1%	-0.5%	-0.3%	-0.1%
3 months	-2.6%	-3.9%	-3.7%	-2.9%	-3.3%	-3.6%	-3.1%
6 months	-4.7%	-6.3%	-6.0%	-5.3%	-5.5%	-6.1%	-5.2%
1 year	-4.2%	-6.7%	-7.1%	-7.2%	-6.8%	-7.2%	-6.2%
YTD	-0.1%	-0.1%	-0.4%	-0.1%	-0.5%	-0.3%	-0.1%

FIGURE 4
Price growth in prime central London by area in the year to January 2017



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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