RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

STAMP DUTY IS BIGGER ISSUE THAN BREXIT IN PRIME CENTRAL LONDON

The vote to leave the EU has brought pre-existing market dynamics into sharper relief, says Tom Bill

JULY 2016

Prices fell -1.5% in the year to July

The number of viewings in the six months to June was **40.8% higher than in 2015**

The number of new prospective buyers **declined -6.2% over the same period**

The number of exchanges including new-build properties **fell -10.5% in the first half of 2016**

The sub-£1 million market registered a relatively stronger performance, with **annual price growth of 1.1%**

As with the wider UK economy, the decision to leave the European Union has provided a backdrop of short-term uncertainty that is affecting behaviour in the prime central London property market.

Early indications suggest the Brexit vote is reinforcing existing pricing trends and viewing the referendum in the context of the preceding two-year period is helpful.

In June 2014, annual growth in prime central London was 8.1%, the last peak before a period that saw growth fall steadily to -1.5% in July 2016.

This slowdown was a natural consequence of strong price rises between 2009 and 2013, however the process was accelerated by two stamp duty increases and a series of other tax measures.

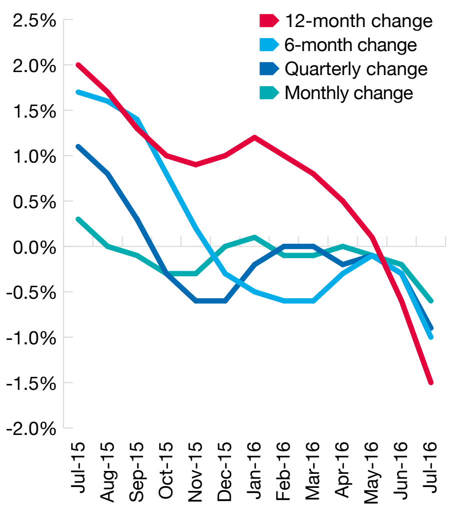
Indeed, despite the widespread media coverage devoted to the EU referendum and its potential impact on house prices, the primary factor curbing demand in prime central London remains stamp duty.

The result of this two-year slowdown is that vendors had already begun to adapt to the new pricing environment and in many cases Brexit has been a trigger to make overdue reductions to asking prices.

Indeed, had the result of the referendum been a victory for 'Remain', it is likely there would have been a similar mismatch between expectations and reality that followed the 2015 general election. Following the formation of a majority Conservative Party government, high stamp duty costs acted as a brake on demand that was widely expected to surge.

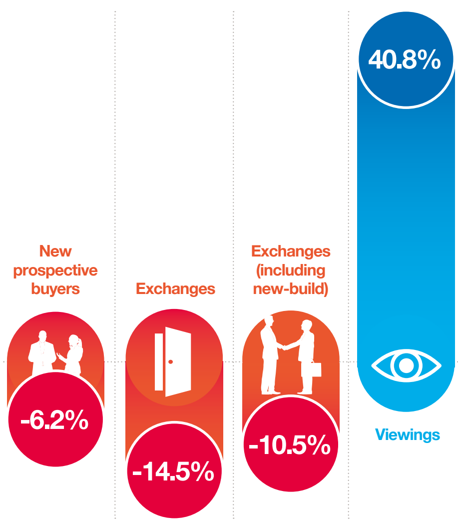
Since the vote, a number of buyers have requested discounts due to the climate of political and economic uncertainty. However, where the asking price was set at an appropriate level before the vote, deals are proceeding with no reductions. In

FIGURE 1
Price growth performance in prime central London



Source: Knight Frank Research

FIGURE 2
The first six months of 2016 versus 2015



Source: Knight Frank Research

TOM BILL
Head of London Residential Research

"The Brexit vote has been a trigger for some to make overdue reductions to their asking price"

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FIGURE 3
Price growth in prime central London by area in the year to July 2016

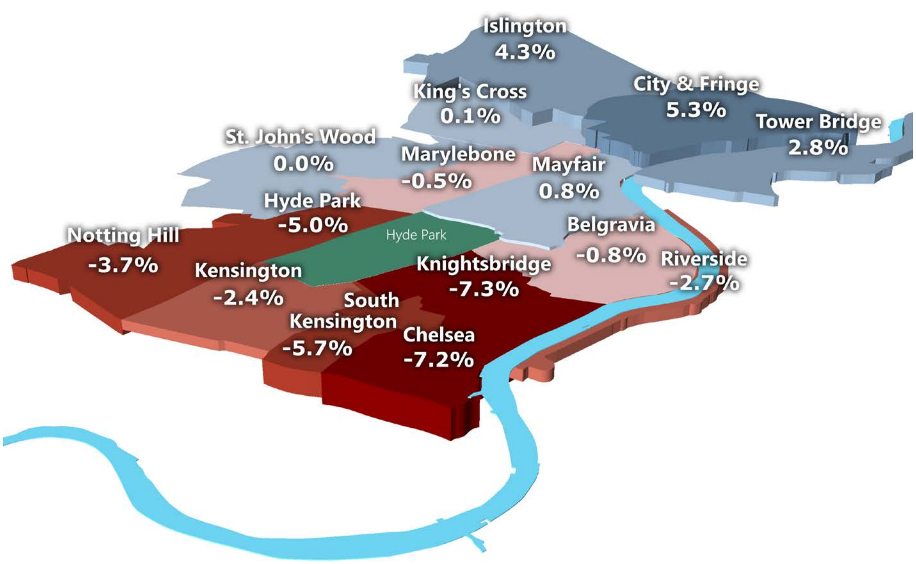

FIGURE 4
Price growth by price band and property type

Prime Central London Index **6,331.2**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.6%	-0.6%	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%
3 months	-0.4%	-0.8%	-0.9%	-1.1%	-1.0%	-1.0%	-0.7%
6 months	0.6%	-0.4%	-1.1%	-2.0%	-1.4%	-1.2%	-1.0%
1 year	1.1%	-0.2%	-1.7%	-3.1%	-2.2%	-1.9%	-1.4%

other cases, the Brexit vote has encouraged vendors to show increased flexibility.

It is too early to say whether the reductions are likely to trigger higher transaction levels. There is no uniform picture across London and the situation is compounded by thin trading during seasonal summer lull.

However, it is possible to see the benefit of recent downward repricing in some markets.

In Belgravia overly ambitious vendor expectations, which had led to weak trading over the past two years, has been replaced by a more realistic approch from sellers. Combined with an effective 10% discount that US dollar-denominated and dollar-pegged buyers have compared to before the EU vote, the result has been a pick-up in activity over the last month.

Similarly, in Knightsbridge, the market which has seen the largest price declines in prime central London over the last 12 months, activity has been relatively strong since 23 June, with no discounts on appropriately-priced properties.

Across prime central London while the number of new prospective buyers was down slightly in the first two quarters of 2016, compared to the same period in 2015, strong viewing volumes give some confidence regarding future sales volumes, which are currently down by around 15% year-on-year.

The referendum has also brought pre-existing dynamics into sharper relief in the new-build market. Price-sensitive buyers have been increasingly driven by the quality of developments and amenities over a desire to buy in a specific London neighbourhood.

Though transactions have declined in recent months towards levels that are more in line with historical norms, they have been more resilient at appropriately-priced schemes with high-quality amenities.

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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