RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

BUYERS DIGEST STAMP DUTY RISE AND STRONG PRICE GROWTH IN PRIME CENTRAL LONDON

Price sensitivity grows as concerns over the proposed mansion tax are replaced by a more sober assessment of increased stamp duty costs, says Tom Bill

JUNE 2015

Annual growth slowed to **2% in June from 8.1% a year earlier**

Annual growth is likely to hit a low this summer but remain positive for the year

Buyers increasingly price sensitive after 42% growth in the last five years

The number of new prospective buyers and sellers points to an **'expectation gap' around pricing**

Higher stamp duty rates for **£1.1 million-plus properties has moderated activity**

After considerable speculation surrounding the possible introduction of a 'mansion tax', the threat disappeared overnight following the Conservative Party victory in May's general election.

The initial expectation from many market observers was that the arrival of single party majority government would stimulate activity. Early evidence is not yet confirming this prognosis.

The number of new potential buyers registering with Knight Frank in May was at its lowest monthly level in 2015, as figure 1 shows.

Meanwhile, the number of inspections of potential new properties for sale, a lead indicator of supply, was at its highest level this year in May.

While this pattern follows a broad seasonal trend, the absence of any marked reaction to the general election in the three final weeks of May underlines the presence of an 'expectation gap' between buyers and sellers in prime central in relation to pricing.

Anecdotally buyers appear to be weighing two issues that have merited fewer headlines than the 'mansion tax' but which are likely to gain in prominence this year.

The first is pricing. Despite the uncertain political backdrop, prime central London prices grew by an exceptional 42% in the five years to June 2015.

Annual growth in June slowed to 2% from 8.1% a year ago, which reflects a more moderate pricing environment and greater sensitivity to asking prices on the part of buyers.

The second consideration is transaction costs following an increase in stamp duty in December for properties worth more than £1.1 million and there is anecdotal evidence that the higher rates mean some buyers are currently more circumspect about moving.

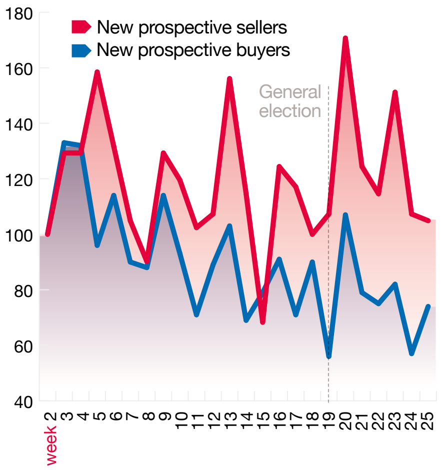
These extra costs have historically taken time to be absorbed by the market and reflected in pricing. It will be telling to see what impact higher stamp duty rates have on overall tax revenues when government figures are released in September.

Prices grew 0.5% in June from a month earlier and at the current average rate of increase, annual growth will bottom out over the summer before a shallow upwards trend emerges later in the year.

FIGURE 1

No post-election bounce in new demand

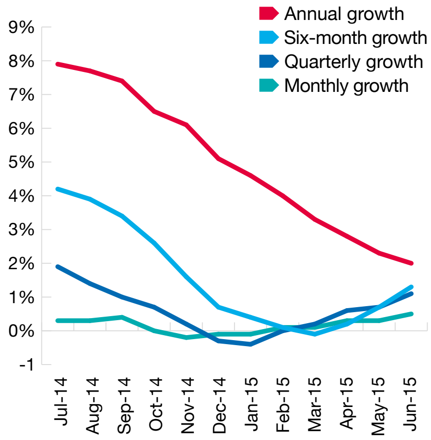
(rebased to 100)



Source: Knight Frank Residential Research

FIGURE 2

Annual price growth is likely to bottom out this year



Source: Knight Frank Residential Research

TOM BILL

Head of London Residential Research

"It will be telling to see what impact higher stamp duty rates have on tax revenues when government figures are released in September"

Follow Tom at @TomBill_KF

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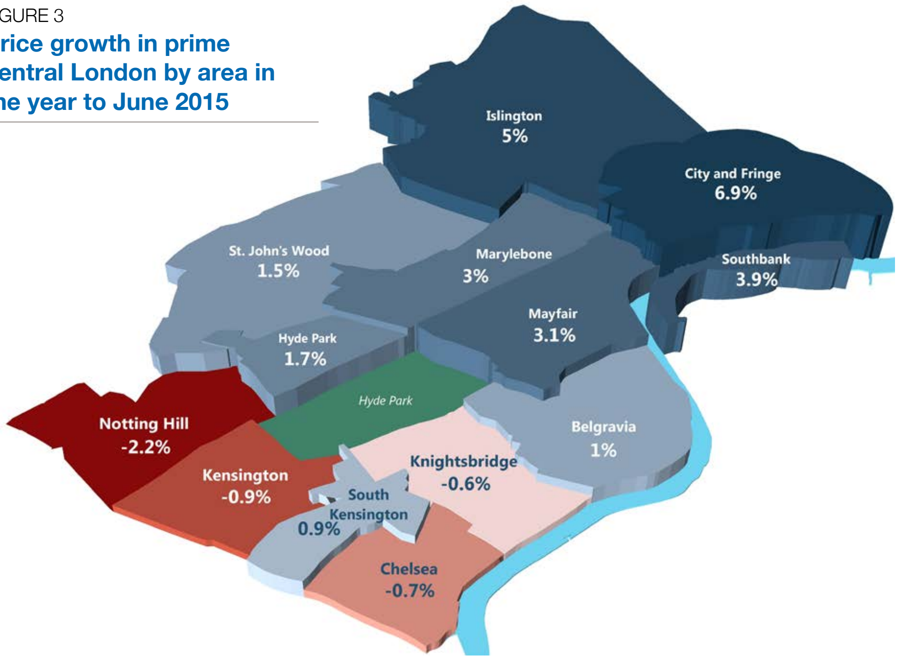
FIGURE 3
Price growth in prime central London by area in the year to June 2015



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.

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Jun-14	6,278.7	8.1%	4.3%	2.3%	0.8%
Jul-14	6,297.3	7.9%	4.2%	1.9%	0.3%
Aug-14	6,318.9	7.7%	3.9%	1.4%	0.3%
Sep-14	6,343.4	7.4%	3.4%	1.0%	0.4%
Oct-14	6,343.4	6.5%	2.6%	0.7%	0.0%
Nov-14	6,330.7	6.1%	1.6%	0.2%	-0.2%
Dec-14	6,323.7	5.1%	0.7%	-0.3%	-0.1%
Jan-15	6,319.5	4.6%	0.4%	-0.4%	-0.1%
Feb-15	6,328.1	4.0%	0.1%	0.0%	0.1%
Mar-15	6,335.2	3.3%	-0.1%	0.2%	0.1%
Apr-15	6,356.9	2.8%	0.2%	0.6%	0.3%
May-15	6,374.7	2.3%	0.7%	0.7%	0.3%
Jun-15	6,407.0	2.0%	1.3%	1.1%	0.5%

Source: Knight Frank Residential Research

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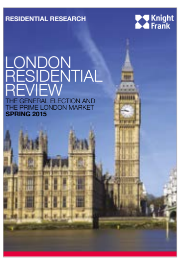

London Review Spring 2015

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