RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

PRICE GROWTH IN PRIME CENTRAL LONDON EASES AS STAMP DUTY UNCERTAINTY EXTENDS

The Chancellor's latest stamp duty increase adds an element of uncertainty as tentative signs emerge that buyers and sellers are adjusting to last year's reforms, says Tom Bill

November 2015

Annual growth slowed to 0.9% in November after prices fell -0.3% from October

In the six months to October, where asking prices fell by 10% to 20%, **exchanges took an average of 24 weeks**

Viewing levels in October were the **third highest since the start of 2014**

Prime London is in the middle of the pack compared to global cities for tax and holding costs

Macro View: The timing of a Bank of England rate rise

TOM BILL
Head of London Residential Research

"The Chancellor's latest announcement came as tentative signs have begun to emerge that buyers and sellers are adjusting to previous stamp duty changes"

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Annual price growth in prime central London declined to 0.9% in November, against the background of prolonged uncertainty surrounding the impact of property taxation.

In November's Autumn Statement, Chancellor George Osborne announced that buy-to-let investors and those purchasing second homes would be subject to an extra three percentage points on the rate of stamp duty from April 2016, although much of the detail remains undefined.

Annual growth was at its lowest level since October 2009, with a monthly deline of -0.3% contributing to the slowdown. The Chancellor's latest announcement came as tentative signs have begun to emerge that buyers and sellers are adjusting to previous stamp duty changes introduced in December 2014.

After a year under the new system, which raised rates for properties worth more than £1.1 million, a growing number of vendors have begun to set asking prices that reflect the more subdued level of demand and heightened sensitivity to pricing among buyers.

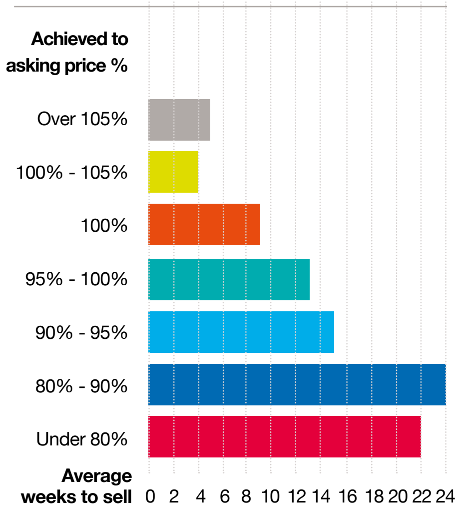
Accordingly, Knight Frank sales data for the six months to October shows properties sold at an incrementally slower pace as the achieved price fell below the asking price.

In instances where the achieved price was 80% to 90% of the asking price, (where the asking price came down by between 10% and 20%,) exchanges took an average of 24 weeks. This compared to 9 weeks where the asking price and the achieved price are the same, that is to say where no reduction was necessary, as figure 1 shows.

It demonstrates the strength of underlying demand, which is reflected in the fact viewing levels have increased in recent months, as figure 2 shows. Viewings in October were at the third highest level since the start of 2014.

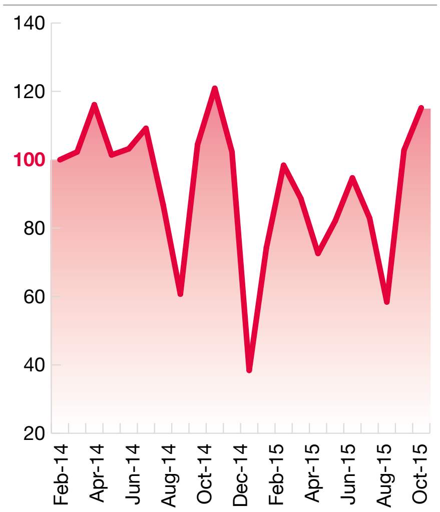
November also saw the release of Knight Frank's global tax report, which showed London was in the middle of the pack compared to other major global cities in relation to prime property tax and holding costs. The latest stamp duty changes appear unlikely to alter this position materially.

FIGURE 1
Price sensitivity is high
Sales in the six months to October



Source: Knight Frank Residential Research

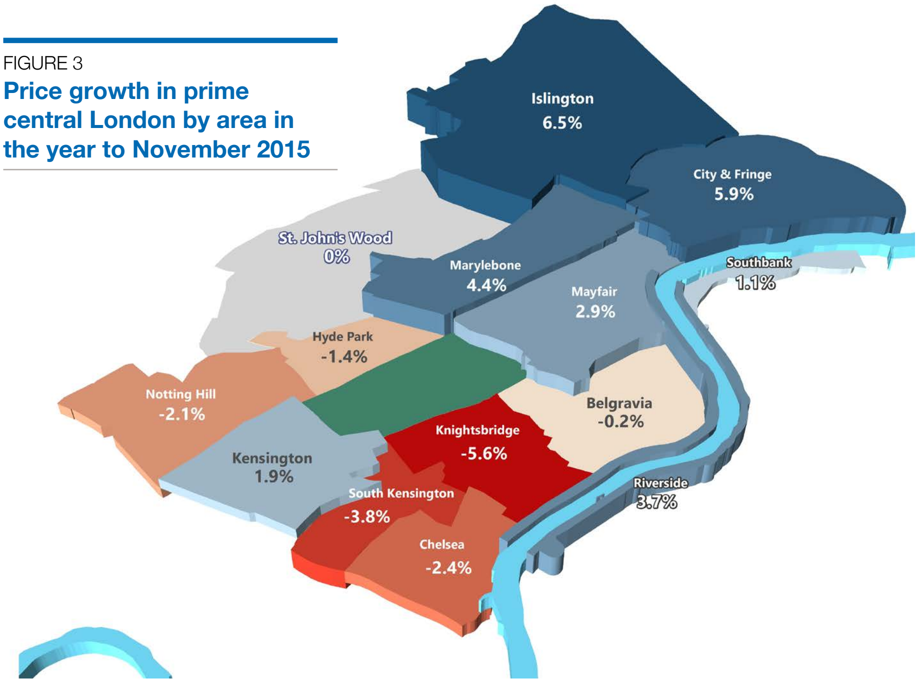
FIGURE 2
Underlying demand increases
Number of viewings (rebased to 100)



Source: Knight Frank Residential Research

FIGURE 3

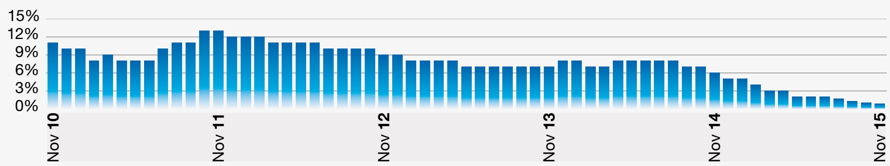
Price growth in prime central London by area in the year to November 2015



THE MACRO VIEW NOVEMBER 2015

Prime Central London Index | **6,390.5**

Annual growth in prime central London over the last five years



THE TIMING OF A BANK OF ENGLAND RATE RISE

The US Federal Reserve has given increasingly strong indications that it will raise interest rates in December.

There have been similar indications before but after China recently cut rates and the European Central Bank signalled more quantitative easing in Europe, the risks to the global economy appear more actively managed if not brought under complete control.

Meanwhile, the Bank of England has been steering financial markets towards a rate rise late next year, meaning the UK and US are likely to be out of step in their approach to monetary policy for most of 2016.

One of the positive implications for the prime central London property market is that Sterling will become comparatively weaker versus the US dollar once the Federal Reserve raises rates, making London property cheaper for buyers denominated in US dollars.

However, the fact the European Central Bank is likely to increase its quantitative easing programme in December clouds the picture as the euro would become relatively weaker versus Sterling.

Either way, it all leaves the UK in a comfortable position between the US and Europe in terms of its approach, said Savvas Savouri, chief economist at asset manager Toscafund.

"By January, when US corporates begin to announce their earnings, the news could be unpleasant, not least the job cuts they reveal as a way of mitigating for lowering estimated earnings and more competitive prices to offset a stronger dollar," he said.

"This exposes the Federal Reserve to claims that in acting early it acted unwisely in relation to its maximum employment and stable price mandates."

"It could easily be that while the ECB sees criticism grow for being late in addressing deflation and the Fed too early in normalising, the Bank of England is seen as taking the most sensible timing course. It is an accolade hardly unfavourable to UK real estate and in particular London property. In that instance, headwinds quickly turn into following winds."

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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