RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

STABLE SALES VOLUMES REFLECT MORE REALISTIC PRICING IN PRIME CENTRAL LONDON

The upwards momentum in the number of viewings and new prospective buyers continues as prices re-align, says Tom Bill

November 2016

The sharp decline in transaction volumes seen in the summer has eased

There was a 23% increase in the number of new prospective buyers in the same period

The average number of **viewings per transaction has risen by over 50%**

Annual growth was **-4.8% in November and prices forecast to be flat in 2017**

Macro View: The Autumn Statement

Despite ongoing uncertainty surrounding the UK's decision to leave the European Union, transaction volumes have stabilized since the summer in response to a re-basing of asking prices as the market adjusts to current stamp duty rates.

Volumes across the whole market in the three months to the end of November were generally down by approximately -25% compared to the same period in 2015. This decline represents an improvement on like-for-like falls of up to 40% between May and July this year.

This adjustment comes on the back of overdue asking price reductions which, as we have noted in previous updates, have in some cases been prompted by the wider political uncertainty generated by the EU referendum result.

This trend is underlined by the fact the ratio between achieved and asking prices has narrowed slightly since the summer, as the aspirations of vendors and purchasers become more closely aligned. Asking prices averaged 91% of achieved prices in October, from a 2016 low of 88% in July, LonRes data shows.

Anecdotally, there is a sizeable element of pent-up demand and there was a 23% year-on-year increase in the number of new prospective buyer registrations in the three months to the end of November, which compares to a decline of -6.3% in the first six months of the year.

The number of viewings rose 42% year-on-year in the three months to the end of November. In a sign that market power has shifted in favour of buyers, the average number of viewings per transaction has risen by over 50% compared to a year earlier.

Average prices fell in the year to November by -4.8%. Our expectation is that 2016 as a whole will see prices fall by -6%, with an anticipated decline of -7% in prime central London West partially offset by growth of 1% in prime central London East (an area that comprises our City & Fringe, Islington, King's Cross, Tower Bridge and Riverside market areas). Our latest forecast points to a levelling-out across the prime central London market in 2017 with an expectation that prices will be flat through the year.

TOM BILL
Head of London Residential Research

"The ratio between achieved and asking prices has narrowed slightly since the summer, as the aspirations of vendors and purchasers become more closely aligned"

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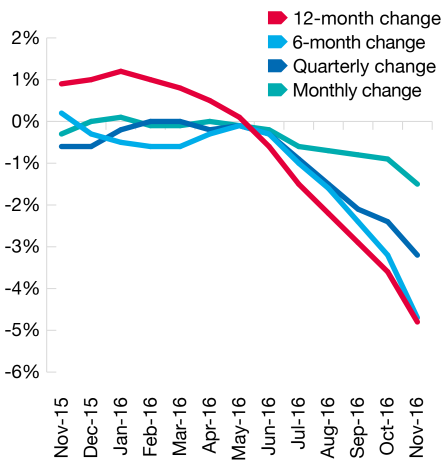
FIGURE 1

Price growth in prime central London

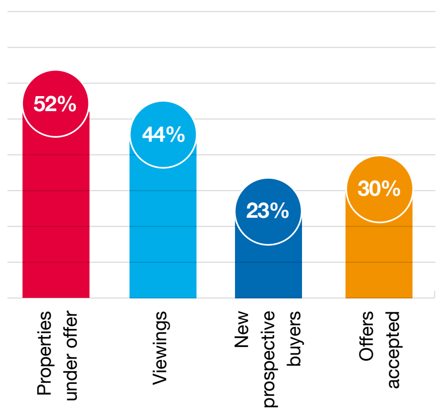


Source: Knight Frank Research

FIGURE 2

Leading indicators of demand strengthen

Three months to November 2016 versus the same period in 2015



Source: Knight Frank Research

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

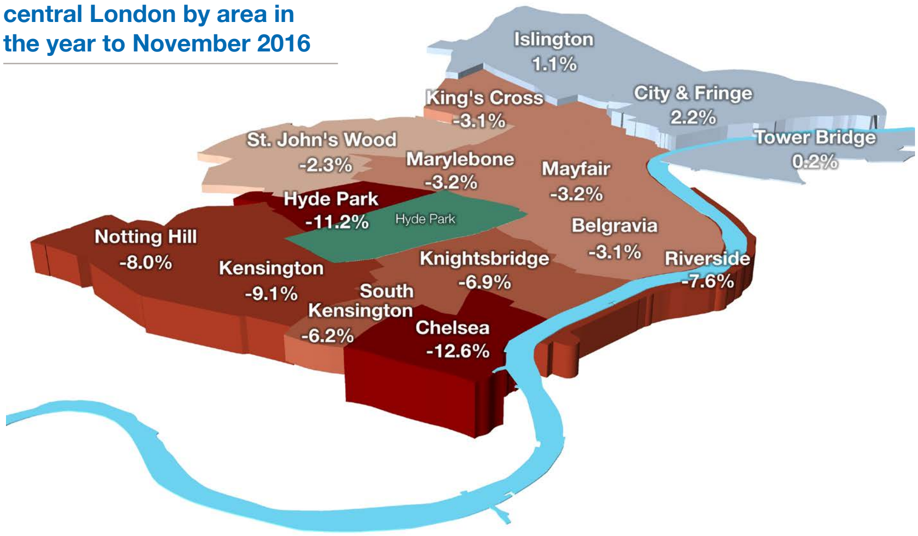


FIGURE 4
Price growth by price band and property type

Prime Central London Index **6,083.6**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-1.2%	-1.7%	-1.8%	-1.3%	-1.0%	-1.7%	-1.3%
3 months	-2.9%	-3.6%	-3.4%	-2.8%	-2.6%	-3.5%	-2.8%
6 months	-4.0%	-4.9%	-5.0%	-4.6%	-4.0%	-5.0%	-4.2%
1 year	-2.0%	-4.2%	-5.1%	-6.0%	-5.0%	-5.3%	-4.6%
YTD	-2.1%	-4.2%	-5.1%	-5.9%	-5.0%	-5.2%	-4.6%

AUTUMN STATEMENT REACTION

The absence of stamp duty reform was the stand out Autumn Statement story for the prime central London market.

Against the background of a London property market that has become increasingly politicised, this leads to three conclusions.

First, expectations that lobbying would lead to a cut were based on a strong element of wishful thinking. While such expectations are unlikely to completely disappear in 2017, anticipation is likely to decline.

Second, the government continues to operate within tight political confines, irrespective of any clamour surrounding a stamp duty cut.

Despite the economic arguments that lower stamp duty rates will boost the tax take, the government will be walking a narrower political tightrope in 2017 than this year.

On the one hand, it has to ensure the economy and tax revenues are resilient as Brexit negotiations begin. On the other, it needs to retain the political allegiance of the group of voters it has dubbed “Just About Managing”.

The rules governing this balancing act are likely to change depending on the flow of economic data and trajectory of Brexit negotiations.

All of which means fiscal policy is likely to become less predictable, which will ultimately mean fewer buyers and sellers can factor it into their decision-making.

The third conclusion is that pent-up demand will continue to be released where vendors adjust asking prices to reflect higher transaction costs, to some degree irrespective of the political background.

As discussed here previously, higher rates of stamp duty are having a distortive effect on the wider London market and explain a longer-term historical decline in transaction volumes. However, signs of resilience since the Brexit vote indicate that while demand has become more subdued since a stamp duty hike in December 2014, realistic pricing can stir it into life.

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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