

ASKING PRICE REDUCTIONS STRENGTHEN DEMAND IN PRIME CENTRAL LONDON

There is early evidence of strengthening demand in higher price brackets albeit from a relatively low base, says Tom Bill

October 2016

Annual price growth declined to **-2.3% in October**

Transaction volumes between £2 million and £5 million in October **hit their highest monthly level since March this year**

Viewings and properties under offer between £2 million and £5 million **rose 71% and 42% in the three months to September on a y-o-y basis**

Macro View: The foreign exchange market since the EU Referendum

The prime central London market has experienced a sharp decline in sales volumes since mid-2014.

Land Registry data confirms that there were 8,599 transactions in the year to 30 June 2016, which was 25% fewer than the comparable period to 30 June 2014. This decline was primarily driven by higher rates of stamp duty.

We have stated previously that while sales have been weaker, a combination of lower asking prices and a weaker pound has begun to push demand indicators higher. Furthermore, uncertainty generated by the decision to leave the EU has made vendors more realistic on asking prices.

Accordingly, the number of viewings, new prospective buyers and properties under offer rose across prime central London in the three months to September 2016 compared to the same period in 2015 (figure 2).

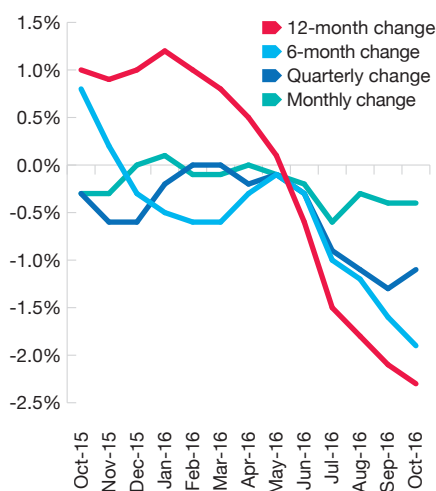
Data for October has provided some early evidence this uptick in demand may be beginning to translate into an increase in

transactions. Sales volumes between £2m to £5m, a bracket hit relatively hard by recent stamp duty reform, were higher in October than in any month this year, with the exception of March. March's spike in activity reflected the introduction of the additional rate of stamp duty in April.

It would be premature to suggest a recovery is underway and buyers remain exceptionally price-sensitive. For context, the number of £2 million to £5 million transactions between January and October this year remains a third lower than the same period in 2014. Future negotiations between the UK and the EU also have the potential to act as a brake on demand.

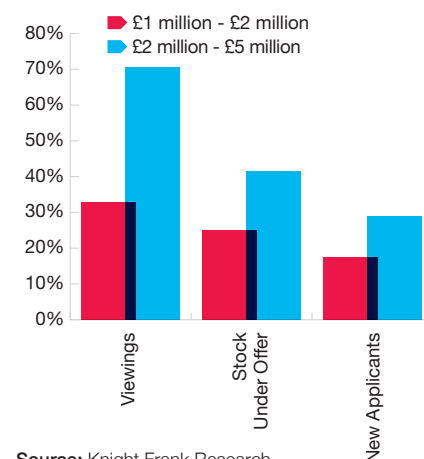
Annual price growth between £2 million and £5 million in the year to October was -2.4% compared to a decline of -1.4% between £1 million and £2 million, a price bracket where demand has remained more resilient. Overall, prices fell -2.3% in the year to October, meaning they now stand at the same level as in the second quarter of 2014.

FIGURE 1
Price growth in prime central London



Source: Knight Frank Research

FIGURE 2
Stronger performance in
higher price brackets
July-Sept 2016 versus July-Sept 2015



Source: Knight Frank Research



TOM BILL
Head of London
Residential Research

"Prices fell -2.3% in the year to October, meaning they sit at the same level as at the second quarter of 2014"

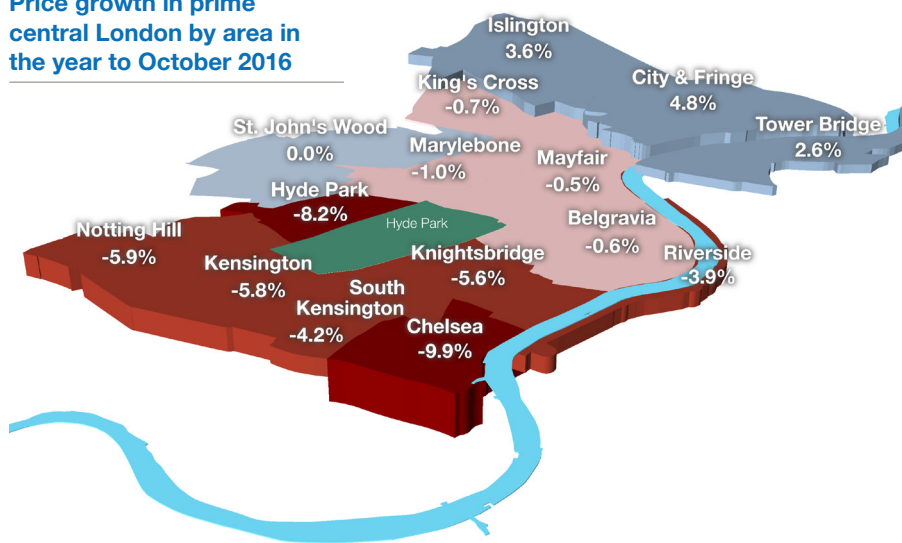
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PRIME CENTRAL LONDON SALES INDEX

FIGURE 3

Price growth in prime central London by area in the year to October 2016



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.

FIGURE 4

Price growth by price band and property type

Prime Central London Index

6,261.5

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.4%	-0.2%	-0.4%	-0.5%	-0.5%	-0.4%	-0.4%
3 months	-0.9%	-1.3%	-1.1%	-1.1%	-0.9%	-1.3%	-0.9%
6 months	-1.3%	-2.1%	-2.0%	-2.2%	-1.9%	-2.3%	-1.6%
1 year	0.6%	-1.4%	-2.4%	-3.7%	-3.0%	-2.6%	-2.3%
YTD	0.5%	-1.3%	-2.0%	-3.3%	-2.7%	-2.3%	-1.9%

THE FOREIGN EXCHANGE MARKET SINCE BREXIT

Sterling has weakened by more than 15% versus the US dollar since the EU referendum, boosting the interest of buyers denominated in overseas currencies.

The decline has had a more modest impact on the number of transactions for two reasons.

First, part of the demand is opportunistic in nature, based on an erroneous belief that the decision to leave the EU has triggered sudden price declines across prime central London. This has caused some buyers to seek double-digit price reductions on top of a favourable double-digit currency swing, to which vendors are resistant.

As we have discussed here before, higher rates of stamp duty are the biggest influence on pricing and demand and the referendum result should be seen in that context.

The second reason that the decline in Sterling has not had a more marked impact is that some buyers are anticipating further currency weakness.

The current high levels of volatility in the

Sterling/Dollar exchange rate, which now moves following interventions by key politicians, underline the risks of this strategy.

Savvas Savouri, chief economist at asset manager Toscafund believes buyers should think longer-term. "For anyone planning to be cute on currency with a property purchase, I would suggest there is no way on earth the pound will be as low as it is today in two years' time," he said.

Furthermore, Savouri believes London will remain a significant financial services centre after Brexit. "Nobody is suggesting there won't be satellite offices opening in the EU but I would argue that entirely new firms will more than fill whatever space is vacated, for the most part these will arrive from far outside the EU.

"They will have ambitions to operate from London not as some Trojan Horse to enter continental Europe, but as a secondary-hub to complement their operations in their domestic markets, from Singapore and Sydney to Sao Paolo and Shanghai. They will, in short, not give a hoot about passporting rights."



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