RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

The prime central London sales index is based on repeat valuations of second-hand stock and does not include new-build property, although units from completed developments are included over time.

PRICES STAY FLAT IN PRIME CENTRAL LONDON AS DEAL VOLUMES RISE

Knight Frank data suggests the price falls seen in 2016 are unlikely to be repeated this year, says Tom Bill

June 2017

Prices were flat in June **for the second consecutive month**

The quarterly decline of -0.3% was the **lowest three-month fall recorded since early 2016**

The number of exchanges recorded between January and May was **14.2% higher than 2016**

Annual price falls in June were -6.3%, compared to -6.6% in May

Macroview: Brexit and euro clearing

Prices were flat in prime central London for the second consecutive month in June, a trend that provides further evidence that the price falls seen in 2016 are unlikely to be repeated this year.

Despite flat pricing in the past two months, on an annual basis prices fell 6.3% in the 12 months to the end of June. Meanwhile, the quarterly figure of -0.3% was the lowest quarterly fall recorded since early 2016.

In terms of market activity, Knight Frank data confirms an improvement compared to last year, aided by the pricing adjustment that has taken place over the last two and a half years as buyers and sellers adapt to higher rates of stamp duty.

The number of exchanges in prime central London recorded between January and May was 14.2% and 8.7% higher respectively than the same period in 2016 and 2015.

However, LonRes transaction data underlines some of the near-term challenges faced by the market. Sales volumes between January and May 2017 were flat compared to 2016. After registering 323 sales in April, which was the second highest figure since June 2015, the LonRes figure fell back to 249 in May, suggesting a degree of caution ahead of the general election.

While there was an element of hesitation ahead of the vote on 8 June, anecdotal evidence suggests activity has been relatively healthy in the period following the election, in particular as a greater degree of flexibility emerges in relation to asking prices.

Furthermore, leading indicators of demand suggest the number of transactions will continue to strengthen in the second half of 2017.

The number of new prospective buyers registering with Knight Frank was 15% higher in the first five months of the year compared to 2016 and the figure was 6% up on 2015. Meanwhile, viewing levels were up by a fifth compared to last year and the amount of stock under offer was up by 36%, suggesting the future flow of exchanges will remain strong.

TOM BILL
Head of London Residential Research

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Follow Tom at @TomBill_KF

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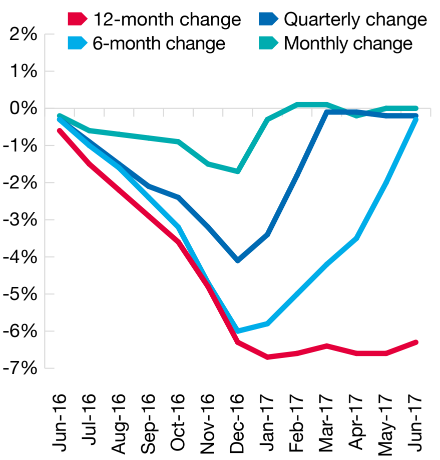
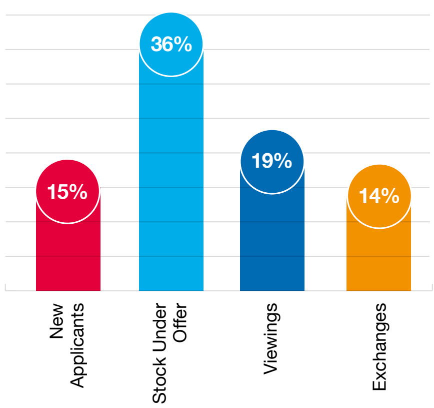
FIGURE 1
Price growth in prime central London



Source: Knight Frank Research

FIGURE 2
Demand indicators are on the rise
Jan-May 2017 vs Jan-May 2016



Source: Knight Frank Research

MACROVIEW | BREXIT AND EURO CLEARING

The European Union has pulled back from a confrontation with the UK over the relocation of euro clearing operations away from London.

London handles hundreds of billions of pounds' worth of euro clearing trades every day and tens of thousands of jobs in the city are linked to this part of the financial services industry.

Recently there have been more conciliatory messages from both sides about what will happen to euro clearing after Brexit, with the early focus being on what level of oversight the European Central Bank will have over key euro clearing operations in London.

Any initiative to increase the regulatory supervision of the ECB would be in line with what currently happens with U.S. regulators in London. This would avoid the relocation of an important part of the financial services industry to the euro zone, which is something the financial industry is keen to avoid as costs would rise.

As well as the potential impact on jobs, the opening positions taken by both sides in relation to euro clearing will set the tone for wider negotiations regarding a sector that plays an important role driving demand in the sales and rentals markets in prime central London.

Knight Frank's head of lettings Tim Hyatt said there are potentially wider implications for the London housing market given that about half of tenants in prime central London come from the financial services industry.

"Landlords have already had to accommodate a number of significant reforms" he said, citing recent tax changes that have dampened landlord demand. "Any meaningful movement of financial services workers would make a notable difference to the supply/demand balance."

"The number one priority for landlords is speed of let and tenant covenant. The more positive noises on the outlook for euro clearing in London will be welcomed by landlords."

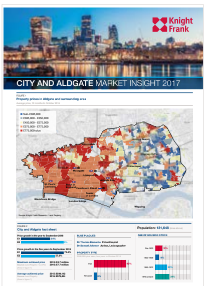
FIGURE 3

Annual price growth by price band and property type

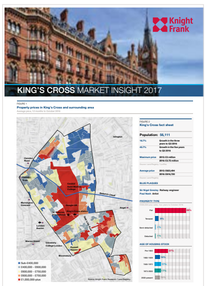
Prime Central London Index **5964.1**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.1%	0.1%	-0.3%	0.8%	0.0%	0.0%	0.2%
3 months	-0.1%	-0.3%	-0.6%	0.6%	0.1%	-0.3%	0.0%
6 months	0.2%	-0.5%	-0.9%	1.0%	-0.6%	-0.4%	0.0%
1 year	-5.0%	-7.3%	-7.0%	-4.8%	-6.2%	-6.7%	-5.7%
YTD	0.2%	-0.5%	-0.9%	1.0%	-0.6%	-0.4%	0.0%

London Review Spring 2017



City and Aldgate market insight 2017

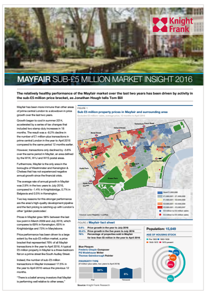


King's Cross market insight 2017

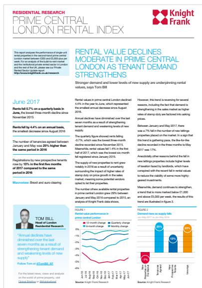
Riverside market insight 2017

Victoria and Westminster Market insight 2017

Martlebone market insight 2016



Mayfair market insight 2016



Prime Central London Rental Index April 2017

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.

RESIDENTIAL RESEARCH

Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

PRESS OFFICE

Harry Turner
+44 20 3861 6974
harry.turner@knightfrank.com

Jamie Obertelli
+44 20 7861 1104
jamie.obertelli@knightfrank.com

Knight Frank