

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.

September 2017

Average prices declined 4.6% in the year to September, the most modest fall since October 2016

Transaction volumes increased 9.8% year-on-year between January and August

New prospective buyers rose 4.9% in the first nine months of 2017

Viewing numbers increased 9% between January and September

The number of new listings above £1 million between January and September was 18.2% lower than 2016

Macroview: Where next for interest rates?



TOM BILL
Head of London Residential Research

“The current pricing trend remains in line with our forecast for broadly flat price movement this year”

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DEMAND HOLDS STEADY IN PRIME CENTRAL LONDON

Key indicators point to a market that is moving towards recovery mode, says Tom Bill

Average prices in prime central London were flat in September as the market continued to adapt to higher transaction costs and the relatively uncertain political backdrop.

On an annual basis prices declined 4.6%, the most modest reduction since October 2016.

Annual price declines have shown signs of bottoming out since the start of this year, when a rate of -6.7% was recorded.

Growth in higher price brackets continued to outperform lower price brackets, indicating how higher rates of stamp duty that initially affected demand at the top end of the market are becoming assimilated, as figure 3 shows.

Between £5 million and £10 million prices declined 2.3% in the year to September, which compared to a 5.3% decline between £1 million and £2 million.

The current pricing trend remains in line with our forecast for broadly flat price movement this year.

There is certainly evidence that stamp duty has had a profound impact on the liquidity of the market and an adverse affect on achievable prices. To this end vendors are being forced to reduce asking prices to levels which, in most instances, equal or exceed the purchaser's

additional tax burden. The perception of value is a prerequisite to achieving sales.

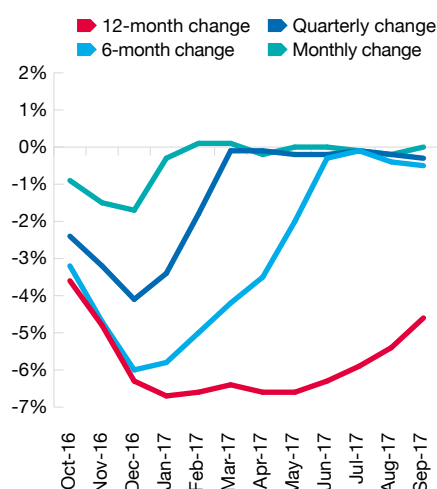
Leading demand indicators show there was a 4.9% rise in the number of new prospective buyers registering between January and September 2017 compared to last year. Viewing levels were up by 8.9% over the same period. Transaction volumes rose 9.8% between January and August.

However, buyers remain cautious and transactions are taking longer to undertake. The average time between listing and exchange in prime central London rose to 34 days in September from 27 days a year earlier, LonRes data shows.

There is also a degree of more restraint on the supply side, with levels of new stock coming to the market declining. There was a 18.2% drop in the number of new listings above £1 million across the whole market in prime central London between January and September compared to the same period in 2016, Rightmove data shows.

Despite the sense of uncertainty, London's standing as a leading financial centre was underlined by a new report in September. The widely-read Z/Yen global financial centres index, which evaluates the competitiveness of global financial centres, showed London with a wider lead over New York at the top of the table.

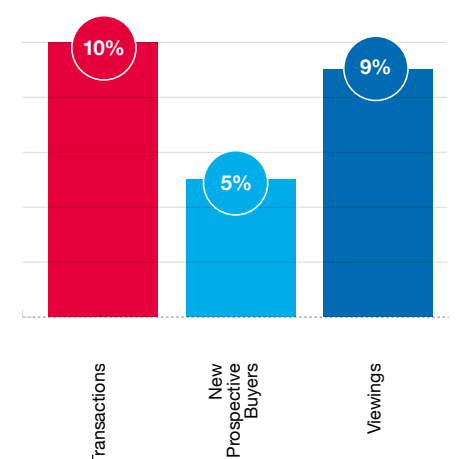
FIGURE 1
Price growth in prime central London



Source: Knight Frank Research

FIGURE 2
Demand indicators are on the rise

Jan-Sept 2017 versus Jan-Sept 2016



Source: Knight Frank Research / LonRes

MACROVIEW | WHERE NEXT FOR INTEREST RATES?

The pound has been trading at between \$1.32 and \$1.36 in recent weeks following stronger hints from the Bank of England that it may raise the base rate sooner rather than later due to higher inflation.

Bank of England Governor Mark Carney dropped a further hint last week, saying: "If the economy continues on the track that it's been on, and all indications are that it is, in the relatively near term we can expect that interest rates will increase."

There are several implications for the property market if rates rise. The first is that current upwards pressure on ultra-low mortgage rates will intensify, as suggested by a spike in five-year swap rates in September.

It also means holding cash or government bonds becomes more attractive for investors.

However, it should be noted that any impact will be limited by the fact rates will initially climb back to 0.5%, which is where they were before the EU referendum and will still be ultra-low by historical standards.

Furthermore, there are several reasons to suggest the medium-term trajectory won't be steep.

The first is Brexit and the accompanying economic uncertainty. The Bank of England will require more clarity around the economic implications of leaving the EU before any normalisation of rates.

Furthermore, wage growth is still relatively subdued, which will act as a brake on inflation. Some economic indicators, such as new cars sales, remain relatively weak, and are likely to prevent a more hawkish monetary stance.

All of these factors suggest that generating income will remain challenging for investors and the higher returns available in the residential property market will continue to look attractive.

As a Knight Frank analysis of lettings market data showed, landlords are not exiting the prime central London property market despite a recent series of tax changes. Part of the reason will be the fact there is no easy answer to the question "where else do I put my money?" as well as London's standing as a global city.

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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FIGURE 3

Annual price growth by price band and property type

Prime Central London Index

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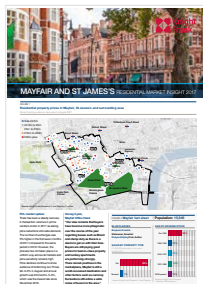
	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.2%	0.1%	-0.1%	0.2%	0.0%	0.0%	-0.1%
3 months	-0.9%	-0.5%	-0.4%	0.6%	0.4%	-0.5%	0.0%
6 months	-1.0%	-0.8%	-1.0%	1.2%	0.5%	-0.7%	0.0%
1 year	-4.1%	-5.3%	-5.4%	-2.3%	-4.1%	-5.1%	-3.8%
YTD	-0.7%	-1.0%	-1.2%	1.6%	-0.3%	-0.9%	0.0%



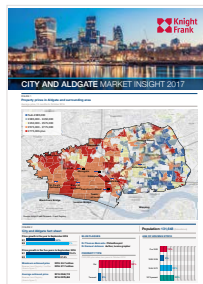
London Review Autumn 2017



Prime Central London Sales Index June 2017



Mayfair market insight 2016



City and Aldgate market insight 2017



Victoria and Westminster Market insight 2017



Marylebone market insight 2016



Residential Market Update



Prime Country House Index

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