

## PRICES PLATEAU IN PRIME CENTRAL LONDON AFTER FOUR YEARS OF GROWTH

Price growth slowed to zero in October, with political uncertainty rising seven months ahead of the general election, says Tom Bill

### OCTOBER 2014

**Price growth slowed to zero in October** due to uncertainty over the outcome of next May's general election

**First time in four years that monthly growth was not registered** as market conditions become more subdued

Annual growth continued a **three-year slowdown from November 2011 to reach 6.5% in October**

**Prices have risen 40% over the last four years**, exceeding growth in the UK mainstream market and the price of gold

Knight Frank forecasts **22% cumulative growth between 2015 and 2019**



**TOM BILL**  
Head of London Residential Research

"It is worth emphasising the gradual nature of the slowdown, which is typical after such a strong run"

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Prices in prime central London were flat in October, ending a four-year period of uninterrupted growth.

The positive run began in November 2010, the same month Ireland became the second European country after Greece to receive a bailout as concerns grew over the future of the eurozone.

Ireland has since left its bailout programme and the economic risks that drove buyers into the safety of London property have been superseded by political risks that have created a mood of caution. As a result there is growing evidence that asking prices are having to adjust to more subdued market conditions.

The risks include the possibility of a 'mansion tax' after next May's general election, a proposal that pre-dates the Irish bailout by a year, though it is a prospect that has moved into the foreground as the election approaches.

Its potential impact remains difficult to assess given a lack of detail but the behaviour of prices in prime central London suggests a certain level of risk is already priced in.

As figure 1 shows, annual price growth has been slowing for the last three years from a peak of 12.6% in November 2011, down to 6.5% in October this year due to uncertainty relating to a series of tax changes in addition to mansion tax.

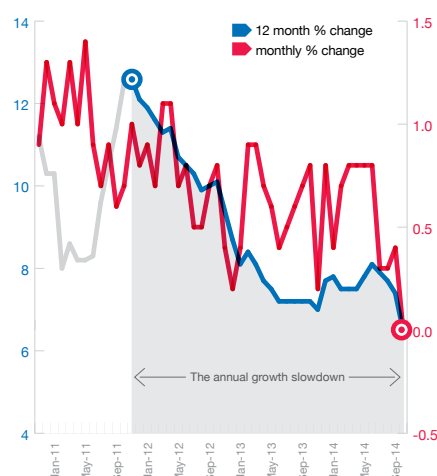
It is worth emphasising the gradual nature of the slowdown, which is typical after such a strong run. Furthermore, the fact monthly growth reached zero in October is in line with a forecast we made more than a year ago.

While we expect zero growth in central London prices throughout 2015, if the prospect of a mansion tax recedes after May, we could see modest positive growth in the second half of the year.

Between 2015 and 2019, we forecast cumulative growth of 22% during what we believe will be a more subdued period for the prime central London market compared to recent years.

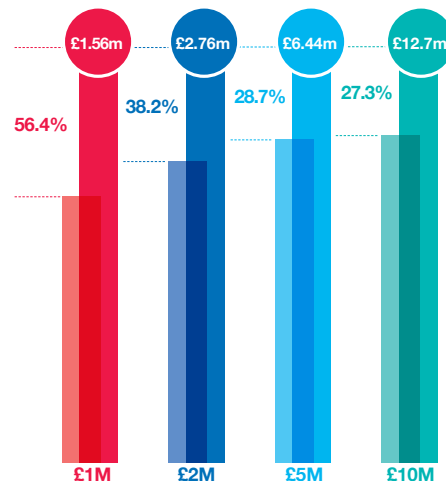
Prices grew 40% in the four years to October, exceeding growth of 15% in the UK mainstream market and a 9% fall in the price of the safe haven asset gold. As figure 2 shows, growth of 56.4% was strongest in the £1 million to £2 million price bracket.

FIGURE 1  
**Monthly growth reaches zero as annual growth continues to slow**



Source: Knight Frank Residential Research

FIGURE 2  
**Four years of growth by price bracket**  
November 2010 to October 2014

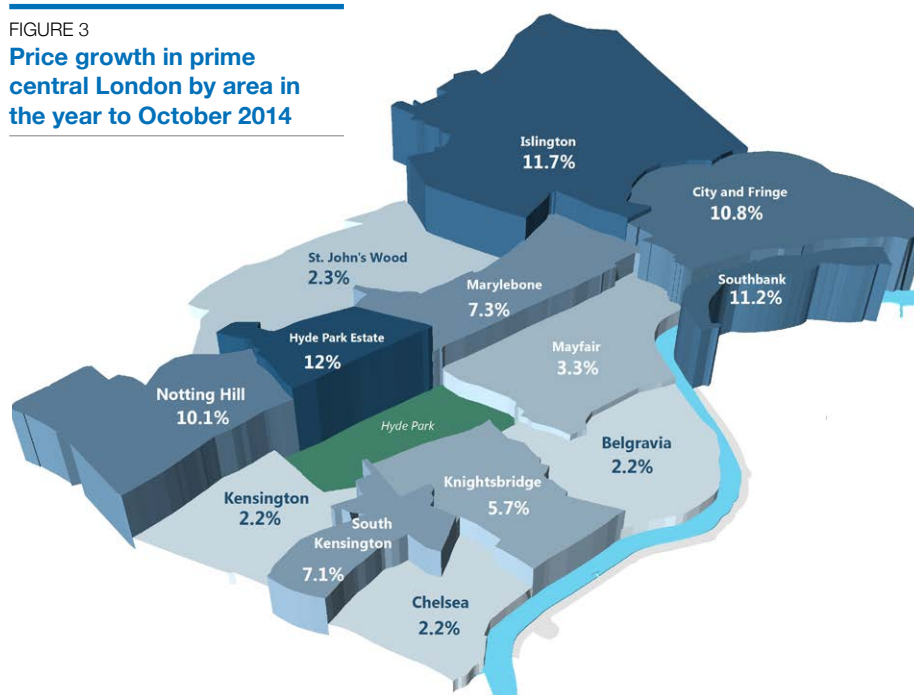


Source: Knight Frank Residential Research

## PRIME CENTRAL LONDON SALES INDEX

FIGURE 3

**Price growth in prime central London by area in the year to October 2014**



## 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.

## Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Oct-13	5,955.5	7.2%	3.6%	2.0%	0.8%
Nov-13	5,969.0	7.0%	3.2%	1.7%	0.2%
Dec-13	6,017.9	7.7%	3.6%	1.9%	0.8%
Jan-14	6,043.6	7.8%	3.6%	1.5%	0.4%
Feb-14	6,083.4	7.5%	3.7%	1.9%	0.7%
Mar-14	6,135.1	7.5%	3.8%	1.9%	0.8%
Apr-14	6,182.4	7.5%	3.8%	2.3%	0.8%
May-14	6,231.2	7.8%	4.4%	2.4%	0.8%
Jun-14	6,278.7	8.1%	4.3%	2.3%	0.8%
Jul-14	6,297.3	7.9%	4.2%	1.9%	0.3%
Aug-14	6,318.9	7.7%	3.9%	1.4%	0.3%
Sep-14	6,343.4	7.4%	3.4%	1.0%	0.4%
Oct-14	6,343.4	6.5%	2.6%	0.7%	0.0%

Source: Knight Frank Residential Research

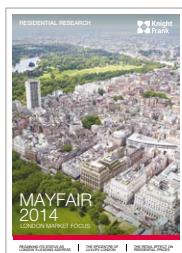
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