

PRICES DIP IN PRIME OUTER LONDON AS POLITICAL UNCERTAINTY COOLS DEMAND

Price growth is slowing in prime outer London as the general election approaches, an effect that is more marked in some areas, says Tom Bill

Results for third quarter 2014

Prices fell -0.2% in October, the first fall registered since May 2011

Annual growth slowed to 10.1%, but still exceeded a figure of 8.4% in October 2013

Fulham recorded the largest decrease, an area with a high number of properties that could be liable for mansion tax

Prices fell -0.5% across south-west London but there was growth in east London

Rental values fell -0.1% but demand rose strongly in the third-quarter



TOM BILL
Head of London Residential Research

“The most marked decrease was in Fulham. The area has a high number of houses worth between £2 million and £4 million, which could potentially be liable for mansion tax.”

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Prices in prime outer London fell in October, ending a period of 40 consecutive months of growth.

A decrease of -0.2% was the first fall since May 2011, which meant annual growth slowed to 10.1% from 11.8% in September. Despite the fact annual growth eased, it exceeded the figure of 8.4% in October last year.

Knight Frank forecasts growth in prime outer London will slow to 3% in 2015, predominantly due to the possibility of a mansion tax after the general election in May next year, though we expect cumulative growth of 26% between 2015 and 2019 as demand continues to exceed supply.

Doubt also surrounds the timing of an interest rate rise even though weak wage growth and low inflation means the likelihood of a near-term increase has receded.

The combination of this uncertainty and the fact prices have risen strongly over a prolonged period of time means annual growth will unavoidably slow, which it has been doing since the summer.

In many cases, more realistic asking prices have re-awakened the interest of buyers.

The most marked decrease was in Fulham, where prices fell 1.1% in October. The area has a high number of houses worth between £2 million and £4 million, which could potentially be liable for mansion tax.

Meanwhile, there was growth in east London, with prices increasing by 0.4% in Wapping and 0.1% in Canary Wharf in October, the only two Knight Frank offices in prime outer London to record a rise.

Both areas benefit from their relative proximity to London’s two financial centres of the City and Canary Wharf, the fact they have fewer £2 million-plus properties and the emergence of high-quality new-build schemes in east London that lifts prices in the re-sales market.

Rental values fell -0.1% in October and the annual decline was -0.9%. Despite the decrease, demand rose in the third quarter of 2014, which meant quarterly growth remained positive, as figure two shows.

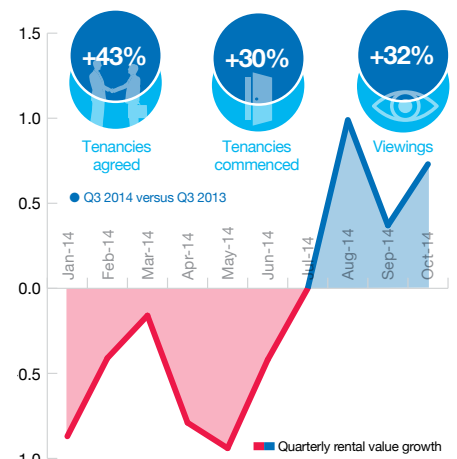
Meanwhile, yields jumped by the most in over three years to 3.59%, their highest level in seven months.

FIGURE 1
Annual growth slows in the sales market



Source: Knight Frank Residential Research

FIGURE 2
Rising demand in the lettings market



Source: Knight Frank Residential Research

PRIME OUTER LONDON INDEX

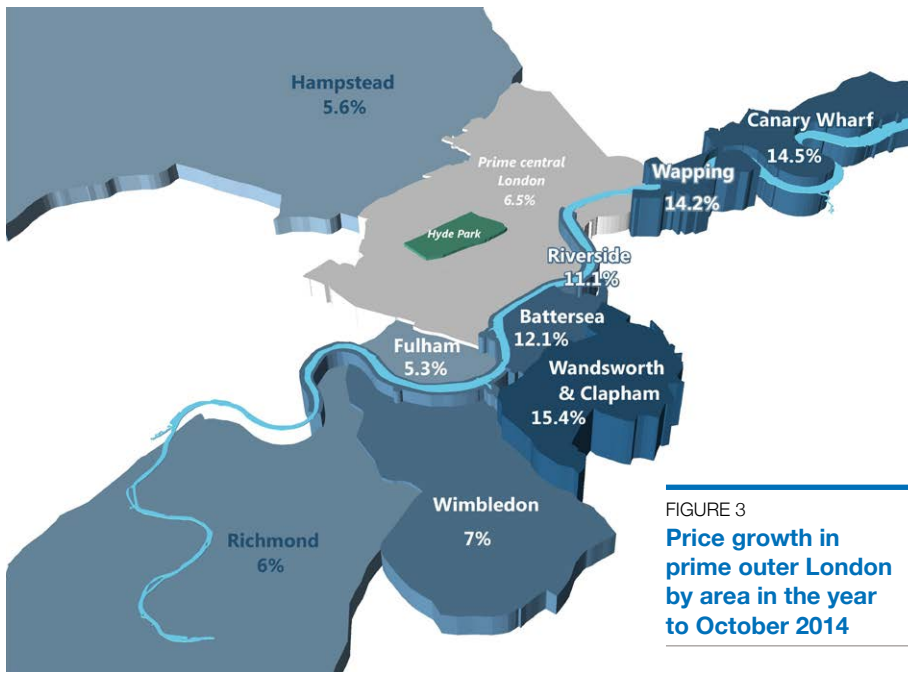


FIGURE 3
Price growth in prime outer London by area in the year to October 2014

DATA DIGEST

The Knight Frank Prime Outer London Index, established in 1997, is the longest running and most comprehensive index covering the prime outer London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime outer London residential property. 'Prime outer London' is defined in the index as covering: Barnes, Battersea, Canary Wharf, Chiswick, Clapham, Fulham, Hampstead, Richmond, Riverside*, Wandsworth & Clapham, Wapping and Wimbledon.

'Prime London' comprises all areas in prime outer London, as well as Belgravia, Chelsea, City & Fringe, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Bank, South Kensington and St John's Wood.

*Riverside in prime outer London covers the Thames riverfront from Battersea Bridge in the east running west to Kew Bridge. In prime central London, it covers the Thames riverfront from Battersea Bridge in the west running east to Tower Bridge and includes South Bank.

Prime Outer London Sales Index

	KF Prime Outer London Index	12-month % change	6-month % change	3-month % change	Monthly % change
May-14	277.9	12.0%	5.9%	2.9%	0.9%
Jun-14	280.7	12.1%	6.1%	2.8%	1.0%
Jul-14	282.9	12.1%	6.0%	2.7%	0.8%
Aug-14	284.4	11.7%	5.3%	2.3%	0.5%
Sep-14	286.6	11.8%	5.0%	2.1%	0.8%
Oct-14	286.0	10.1%	3.8%	1.1%	-0.2%

Prime Outer London Rentals Index

	Index	12-month % change	6-month % change	3-month % change	Monthly % change
May-14	184.3	-0.89%	-1.34%	-0.94%	-0.30%
Jun-14	185.5	-0.52%	-0.58%	-0.42%	0.66%
Jul-14	184.9	-1.22%	-0.79%	0.00%	-0.36%
Aug-14	186.1	-0.61%	0.04%	0.99%	0.69%
Sep-14	186.2	-0.38%	-0.05%	0.37%	0.05%
Oct-14	186.2	-0.93%	0.73%	0.73%	-0.01%

Source: Knight Frank Residential Research

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