

HESITANCY TAKES HOLD IN PRIME OUTER LONDON AS ELECTION AND RATE RISE LOOM

After a strong start to 2014, demand in the prime outer London sales market has become more muted in recent months, as Tom Bill explains.

Results for second quarter 2014

Prime outer London residential prices rose 12.1% in the year to June after monthly growth of 1%

New buyer registrations fell by a fifth and the supply of new property increased by a third as uncertainty grew over interest rates and election

Available stock is at its highest level in more than five years

Prime outer London rents rose 0.7% in June, the highest monthly rise in more than five years

The prime outer London lettings market recovery is still tentative and rental values fell -0.4% over the second quarter



TOM BILL
Head of London Residential Research

“Annual growth in prime outer London residential prices only exceeded 5% a year ago and moved into double-digits in January this year.”

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Two statistics demonstrate what happened in the prime outer London sales market between April and June: new buyer registrations fell by a fifth and the supply of new property rose by a third compared to the same period last year.

The causes of this trend are led by growing speculation around an interest rate rise and uncertainty over the outcome of next May’s general election and possible tax changes.

To some extent, buyers have also become more restrained after a period of relatively strong price growth with sealed bids and open days becoming less prevalent.

Whatever the validity of buyers’ concerns about the sustainability of price inflation, it is worth highlighting that annual growth in prime outer London residential prices only exceeded 5% a year ago and moved into double-digits in January this year.

The amount of available stock in prime outer London in June was 19% higher than June last year and at its highest overall level in more than five years.

Annual growth in prime outer London was 12.1% in the year to June after a monthly

rise of 1%, which compares to 8.1% in prime central London.

There is an overlap of factors causing demand to slow in both markets but the prospect of an interest rate rise is likely to play a stronger role in prime outer London.

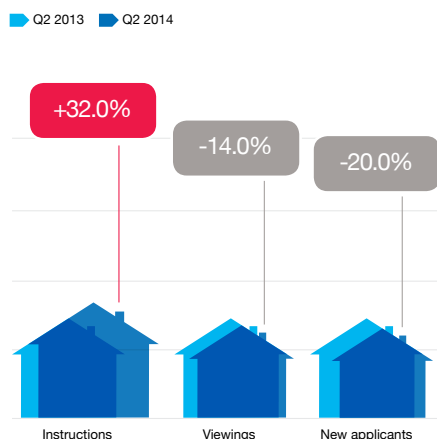
Wandsworth & Clapham recorded the highest annual growth of 17.2% followed by 15.8% in Canary Wharf.

There are tentative signs the prime outer London rentals market will benefit from softening demand in the sales market, as figure 2 shows. It is an emerging trend in the prime central London market as the economy stabilises and companies expand.

Rental values grew 0.7% in June, which was the highest monthly increase since the index was produced on a monthly basis in April 2011.

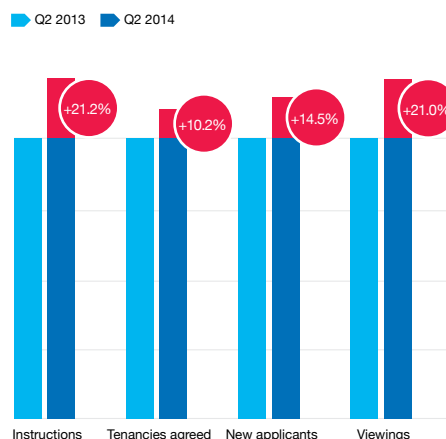
It mirrored a similar record monthly jump in prime central London in June but growth still remains more erratic in outer London and was -0.4% down over the second quarter and -0.5% over the last year.

FIGURE 1
Demand falls in the sales market...



Source: Knight Frank Residential Research

FIGURE 2
..but it rises in the lettings market



Source: Knight Frank Residential Research

PRIME OUTER LONDON INDEX

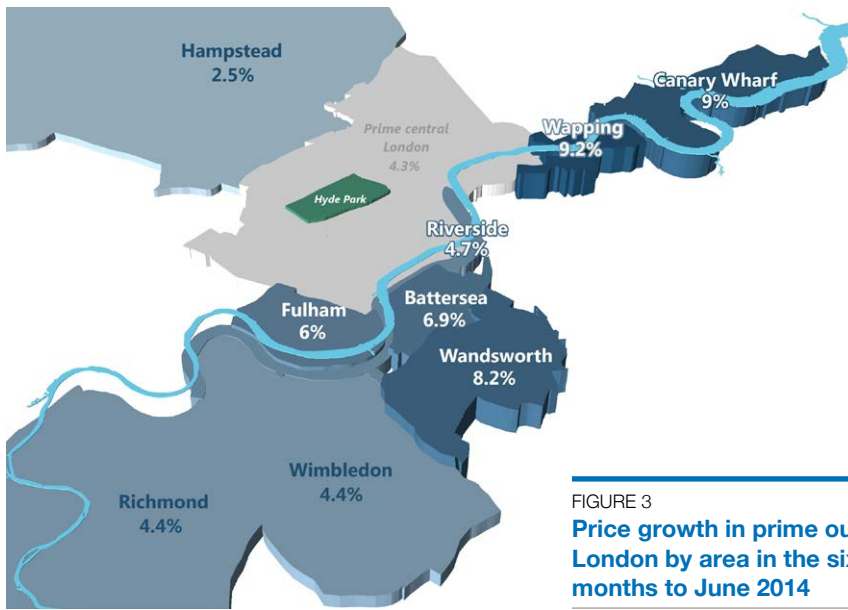


FIGURE 3
Price growth in prime outer London by area in the six months to June 2014

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, Regent's Park, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to include 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 Outer London Indices

Prime Outer London Sales Index

	KF Prime Outer London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Jan-14	266.9	10.3%	5.8%	2.7%	0.9%
Feb-14	270.1	11.0%	6.1%	2.9%	1.2%
Mar-14	273.0	11.5%	6.4%	3.2%	1.1%
Apr-14	275.5	12.1%	6.0%	3.2%	0.9%
May-14	277.9	12.0%	5.9%	2.9%	0.9%
Jun-14	280.7	12.1%	6.1%	2.8%	1.0%

Prime Outer London Rentals Index

		12-month % change	6-month % change	3-month % change	Monthly % change
Jan-14	186.3	-0.55%	-0.43%	-0.87%	-0.15%
Feb-14	186.0	-0.66%	-0.66%	-0.41%	-0.15%
Mar-14	186.3	-0.33%	-0.33%	-0.16%	0.14%
Apr-14	184.9	-0.97%	-1.65%	-0.79%	-0.78%
May-14	184.3	-0.89%	-1.34%	-0.94%	-0.30%
Jun-14	185.5	-0.52%	-0.58%	-0.42%	0.66%

Source: Knight Frank Residential Research

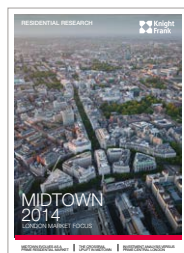
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