RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

CAUTIOUS OPTIMISM FOR THE PRIME CENTRAL LONDON MARKET

Despite the seasonal summer lull, there are grounds to believe activity will increase in the autumn, says Tom Bill

August 2016

There has been a **22.1% rise in the number of new prospective buyers since the EU referendum versus 2015**

The number of properties under offer in the **eight weeks since Brexit rose 19% compared to last year**

Web viewings grew by 20.8% while viewings increased by 49% compared to last year

Annual price growth declined to -1.8%, the steepest decline since October 2009

Macro View: Brexit and the new-build market

Residential sales activity in prime central London was stronger this August than last year, though remained relatively subdued due in part to the seasonal summer lull.

However, there are grounds for cautious optimism that activity will intensify over the next few months, as recent stamp duty increases and, to a lesser extent, the vote to leave the European Union continue to act as catalysts for overdue price adjustments.

While there remains a high level of speculation over the impact of Brexit on the prime London property market, it remains too early to discern its likely long term impact.

As with the broader economy, any profound change in performance will only become clearer over the next year or two, depending on the outcome of a protracted period of negotiations between the EU and the UK.

While Brexit has added to a backdrop of political and economic uncertainty, it has also acted as an incentive for action in the two months since the vote.

Buyers denominated in overseas currencies are benefitting from an effective discount of more than 10% since the start of the year due to the depreciation of Sterling. Meanwhile, Brexit has been the trigger for some vendors to reduce asking prices to levels that take higher rates of stamp duty and the new economic and political climate into consideration.

Prices in prime central London fell -1.8% in the year to August, the steepest decline since October 2009. There remain differences across the region, with the largest annual decline of -8.9% in Chelsea, compared to positive growth of 0.7% in Mayfair and smaller declines of -0.9% in Marylebone and -0.8% in Belgravia. Meanwhile, the recent declines in Knightsbridge appear to be bottoming out as asking prices align with higher expectations..

Despite the summer lull, leading indicators of activity remain strong. In the eight weeks following the referendum, the number of new prospective buyers rose 22.1% compared with the same period in 2015, as figure 2 shows. The number of properties under offer rose 19%, while viewing levels increased by almost half.

It is still early for firm conclusions of future market moves following the EU referendum, however the worst of the initial forecasts appear to have been avoided to date. The tentative improvement in some demand indicators provide grounds to believe the prime central London market is set for at least a modest recovery in trading volumes, whether this translates into an uptick in pricing is less clear.

TOM BILL
Head of London Residential Research

"Despite the summer lull, leading indicators of activity remain strong"

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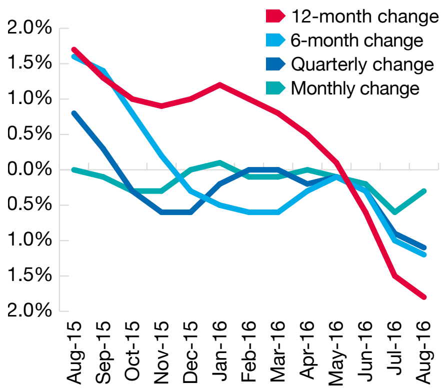
FIGURE 1

Price growth performance in prime central London

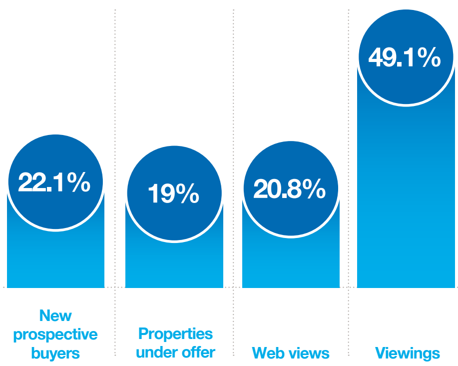


Source: Knight Frank Research

FIGURE 2

Post-referendum market performance

Eight weeks following the EU-referendum versus equivalent period in 2015



Source: Knight Frank Research

FIGURE 3
Price growth in prime central London by area in the year to August 2016

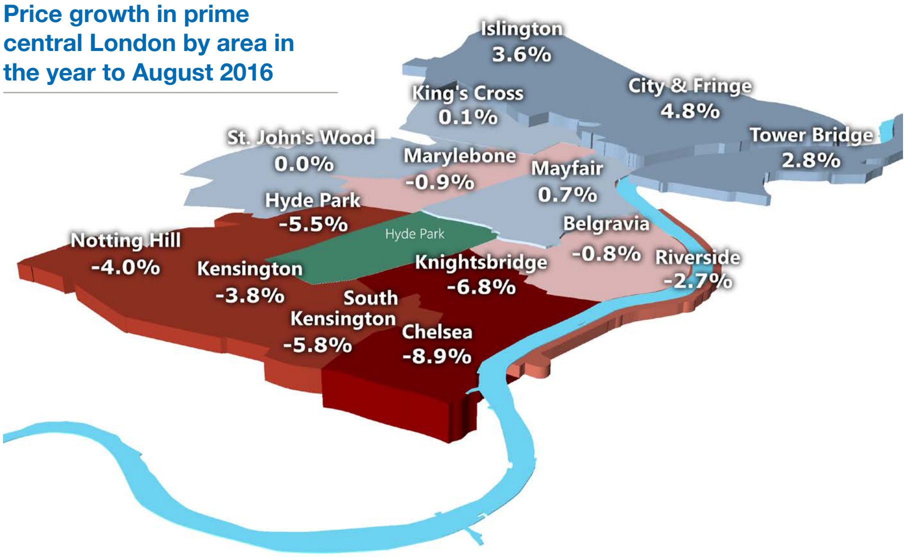


FIGURE 4
Price growth by price band and property type

Prime Central London Index **6,311.8**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.2%	-0.2%	-0.4%	-0.5%	-0.2%	-0.3%	-0.3%
3 months	-0.8%	-0.9%	-1.2%	-1.3%	-1.0%	-1.2%	-1.0%
6 months	0.1%	-0.6%	-1.4%	-2.4%	-1.3%	-1.5%	-1.2%
1 year	1.1%	-0.6%	-2.1%	-3.5%	-2.4%	-2.1%	-1.9%
YTD	1.2%	-0.2%	-1.3%	-2.7%	-2.0%	-1.4%	-1.3%

POST-BREXIT LONDON AND THE NEW-BUILD MARKET

The conflicting economic data since the UK voted to leave the European Union are shaping a consensus view that it remains too early to assess the impact of Brexit.

The same is true of the residential development market in prime central London.

Brexit has brought pre-existing dynamics into sharper relief but is otherwise having a relatively minor bearing on a market that is still digesting a series of tax changes that included two stamp duty rises in 18 months.

“Brexit is not having a particularly adverse or positive impact on the market,” said Ian Marris, Knight Frank’s joint head of residential development. “What the market is dealing with is the fiscal drag of taxation.”

“Developers are managing their margins by focussing on details like containing construction costs and refining their schemes so capital values are at the right pricing point,” he said. “They are accepting of development risk but are not prepared to take on legal, technical or planning risk without an appropriate level of margin.”

Average residential development land prices fell for the third consecutive quarter in Q2 this year, dropping by 6.9%, as higher taxation impacted the viability of schemes. Average values were down 9.4% on an annual basis, meaning the index has returned to 2014 levels after several years of exceptional growth.

“We have come out of a bull market and now we are operating in normal market conditions,” said Marris. “These are the circumstances when you see very different relative levels of performance across prime central London. Product that is not best-in-class cannot be priced at a premium.”

In a market where demand is so sensitive to price and the quality of individual developments, it is misleading to generalise about particular locations or price brackets.

“Two schemes side-by-side can be performing very differently. The assessment of risk needs to factor in multiple characteristics but for developers who have benchmarked properly and done their homework deals are being done.”

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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