RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

Knight Frank

A TALE OF TWO STAMP DUTY REFORMS IN PRIME CENTRAL LONDON

A combination of strengthening demand and April's stamp duty deadline has resulted in higher sales volumes in the last two months, says Tom Bill

January 2016

Prices rose 0.1% in January, which edged **annual growth higher to 1.2%**

Sales volumes declined 17% in the second half of 2015 versus 2014

Prices in prime markets in Westminster and Kensington & Chelsea **have fallen -0.3% since mid-2014**

The number of properties withdrawn from sale rose 7% in 2015

Macro View: The falling oil price and London property

Sales volumes in prime central London have increased following a period of subdued trading last autumn.

The pick-up suggests buyers and vendors have begun to absorb the stamp duty changes introduced in December 2014, with asking prices that increasingly reflect higher rates of stamp duty and lower levels of price growth, as figure 2 shows.

Indeed, the escalating level of market commentary and media coverage concerning the slowdown in the prime central London property market means it has become easier for vendors to accept the fact prices have been essentially flat since summer 2014.

While prices in eastern markets like Islington and the City have performed more strongly, prices in prime markets in Westminster and Kensington & Chelsea fell by an average -0.3% in the 18 months to January 2016.

The result is that buyers are typically not prepared to exceed 2014 prices and asking prices often need to decline by 10% or more to reflect this more subdued state of demand.

Despite the recent uptick, volumes in the second half of 2015 were 17% lower than the same period in 2014.

This sense of momentum has also been driven to some extent by the proposed changes to stamp duty, which come into effect on 1 April.

Under current proposals, buyers would pay an extra three percentage points in stamp duty for buy-to-let properties and second homes and the impending deadline means buyers and sellers have felt a greater sense of urgency in recent weeks.

This moderate rise in activity meant prices rose 0.1% in January, the first positive monthly growth since July 2015. Indeed, viewings in the final quarter of 2015 were 4% higher than 2014.

It meant annual growth rose marginally to 1.2% after dipping to a six-year low of 0.9% in November.

The price-sensitive nature of the market means buyer cautions remains high, which is reflected in higher fall-through rates. The number of properties withdrawn from sale in 2015 rose 7% compared to 2014.

TOM BILL
Head of London Residential Research

"It has become easier for vendors to accept the fact prices have been essentially flat since summer 2014"

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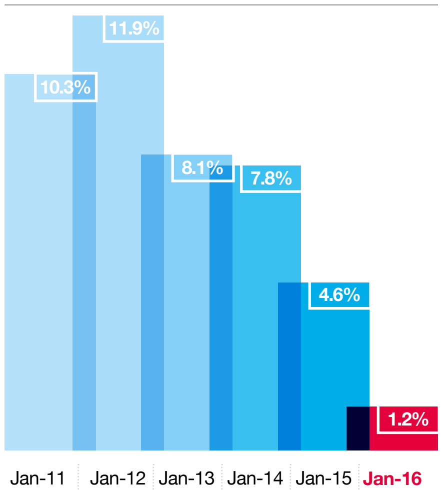
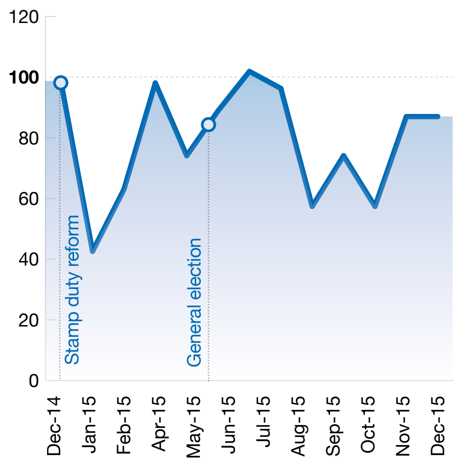
FIGURE 1
A muted start to the year
Annual price growth in January, 2011-2016



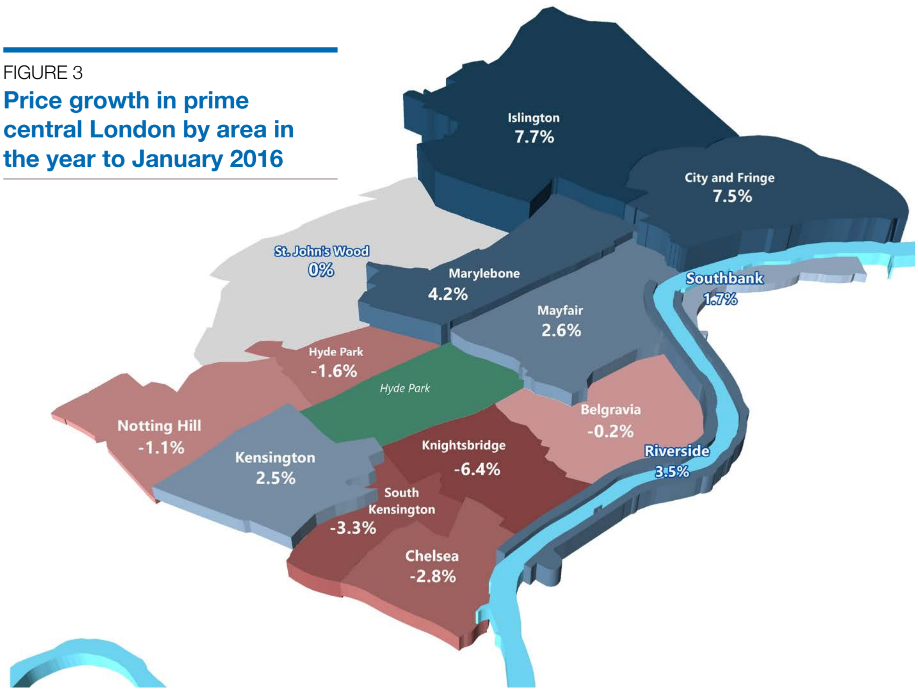
Source: Knight Frank Residential Research

FIGURE 2
Sales volumes in prime central London
(rebased to 100)



Source: Knight Frank Residential Research

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



DATA DIGEST

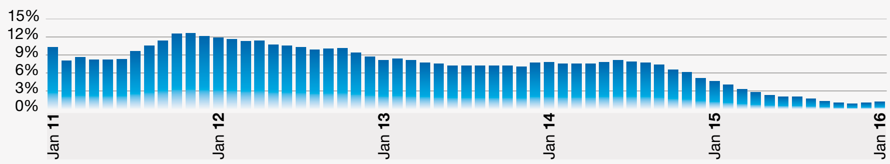
The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. '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.

THE MACRO VIEW JANUARY 2016

Prime Central London Index | **6,395.9**

Annual growth in prime central London over the last five years



THE OIL PRICE DECLINE AND PROPERTY MARKETS

At the World Economic Forum in Davos, the chairman of Saudi Arabia's state oil company said the current price of about $30 per barrel was "irrational " and would recover in 2016.

However, the world's largest oil exporter said it would not cut production unilaterally, highlighting the complex dynamics that exist between oil producing countries that some believe will keep prices lower for longer.

Saudi and other oil exporters have created a supply glut to fend off competition from the shale gas industry and Alp Eke, chief economist at National Bank of Abu Dhabi, believes the oil price won't hit $70 per barrel again until 2020.

"I can't see the good old days of $100 per barrel for even longer than that," he told Knight Frank. "Iraq is rebuilding so won't cut production and now Iran is free to export after the sanctions were lifted. The ability of the Saudis to influence the oil price is decreasing. Even if they cut Iran won't match it."

There are two significant implications for property markets.

First, a lower oil price will keep inflation in check, which will delay the moment the Bank of England raises interest rates, supporting demand for mortgages.

Second, while some institutional capital is returning to or remaining in the Middle East to support the local economies, private individuals are more likely to buy property and other asset classes outside the region due to longer-term concerns about what the falling oil price may mean.

"The oil price is the number one cause of anxiety in the GCC region," said Eke. "Assets will be depleted and governments will introduce austerity measures and consider taxation," he said.

This trend for outflows of private capital has parallels with what has taken place in China, with the Institute of International Finance reporting in January that outflows from China and emerging markets were larger than anticipated due to concerns over the country's economic slowdown and outlook for the stock market.

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