RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

SALES VOLUMES RISE IN WAKE OF BREXIT VOTE, BUT PRICES CONTINUE TO WEAKEN

A strong week for sales, following the vote in favour of Brexit, tells us more about the pre-referendum market than about future trading conditions, argues Tom Bill.

JUNE 2016

Prices fell -0.6% in the year to June 2016

The prime central London yield was 3.1% in June, compared to 0.8% on a ten-year government bond

The number of transactions in the week after the Brexit vote were **29% higher than the same week in May**

The number of new prospective buyers between £5 million and £10 million **rose 8% in the year to June**

Prices in the sub £1 million price bracket rose 0.4% in the 3 months to June

TOM BILL
Head of London Residential Research

"Political uncertainty in the UK will undoubtedly weigh on sentiment, and will be likely to last until at least the heads of terms of the new relationship between the UK and the EU are agreed."

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Average prices across prime central London fell in June by -0.2%, the weakest monthly result since November 2014. June's result pushed annual price growth to -0.6%.

The index data for June largely covers the period leading up to the UK's EU referendum. Weaker price growth, together with rising economic and market uncertainty surrounding the European vote, has prompted vendors to reduce asking prices over recent months. This more realistic approach has resulted in an uptick in activity – most notably in the immediate aftermath of the referendum result.

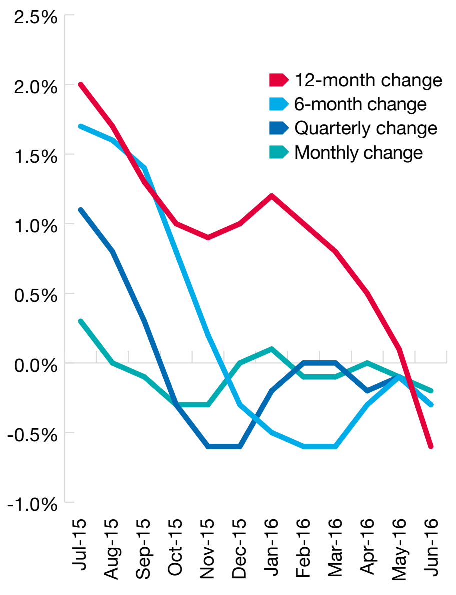
Following the referendum, in final week of June, the number of transactions across prime London was 38% higher than the prior week and 29% higher than the final week of May. This positive story has been widely reported, but what has often been missed is the weakness of sales prior to the vote, which has flattered more recent sales data.

While the reduction in asking prices has boosted recent activity, it would be wrong to ignore market risks. An initial reading of post-referendum data on new-buyer registrations and viewings reveals both have slipped back slightly compared to the same period a month ago – although it is still very early to draw firm conclusions.

Looking ahead, political uncertainty in the UK will undoubtedly weigh on sentiment, and will be likely to last until at least the heads of terms of the new relationship between the UK and the EU are agreed. A reduction in political risk, should allow mitigating factors to kick in and support the London market.

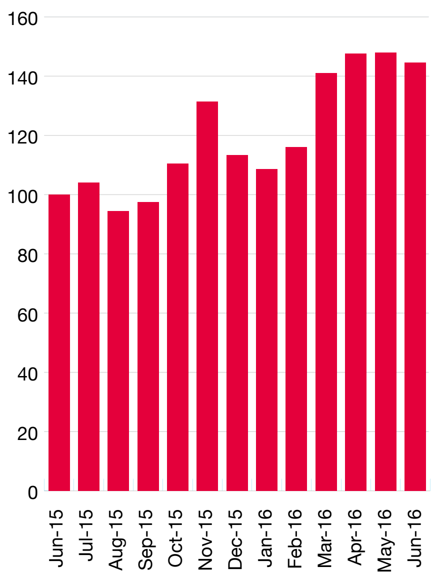
A cut in the UK base rate, while unlikely to fully translate into lower mortgage rates,

FIGURE 1
Price growth changes in prime central London



Source: Knight Frank Research

FIGURE 2
Viewings increase in prime central London
(Rolling three-month average, rebased to 100)



Source: Knight Frank Research

FIGURE 3

Price growth in prime central London by area in the year to June 2016

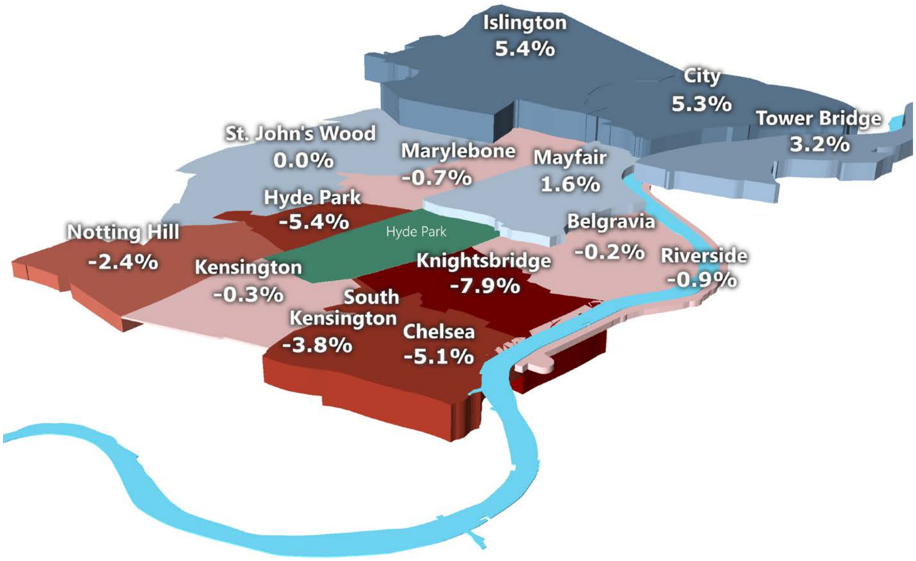


FIGURE 4

Price growth by price band and property type

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House	PCL average
1 month	0.0%	-0.1%	-0.3%	-0.3%	-0.3%	-0.3%	-0.1%	-0.2%
3 months	0.4%	-0.2%	-0.3%	-0.9%	-0.2%	-0.4%	-0.2%	-0.3%
6 months	2.0%	0.6%	-0.4%	-1.7%	-1.3%	-0.5%	-0.4%	-0.3%
1 year	2.7%	0.5%	-0.8%	-2.5%	-1.4%	-0.9%	-0.7%	-0.6%
YTD	2.0%	0.6%	-0.4%	-1.7%	-1.3%	-0.5%	-0.4%	-0.3%

would be a positive for the property market. Similarly, recent and proposed rate cuts in markets like India and China and record low government bond yields make property a more attractive investment by comparison. The current residential yield in prime central London is 3.1% versus 0.9% on a ten-year UK government bond.

Finally, the recent weakening of Sterling is having a positive impact on relative affordability for international buyers in the London market – for a Hong Kong buyer effective pricing in prime central London is 21% lower than it was two years ago.

Again, for both domestic and international demand it is the resolution to the UK's new European relationship which will be instrumental in unlocking future activity.

Markets in detail

Looking at the market by price band, we see a more nuanced story. On a quarterly basis, while the whole market saw prices fall -0.3%, prices for sub-£1m properties rose on average by 0.4%.

This outperformance of lower price points within the prime London market is reflected by local sub-market performance. Prices in The City & Fringe, Islington and South Bank rose on average by 0.8% to 1.5% in the quarter to the end of June. Positive growth wasn't confined to the eastern part of central London, South Kensington and Marylebone saw quarterly growth of 0.9% and 0.4% respectively.

Furthermore, new-buyer registration volumes rose in the £2m-£5m and the £5m-£10m markets (9% and 8% respectively) over the past year. These markets have been the weakest performers for two years in terms of price growth and renewed interest here may point to some opportunistic buys in the next few months.

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.

RESIDENTIAL RESEARCH

Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

PRESS OFFICE

Jamie Obertelli
+44 20 7861 1104
jamie.obertelli@knightfrank.com

Harry Turner
+44 20 3861 6974
harry.turner@knightfrank.com