

LETHARGY SETS IN AHEAD OF BREXIT VOTE IN PRIME CENTRAL LONDON

Beyond the distraction of the EU referendum there are signs that demand is strengthening, says Tom Bill

May 2016

Annual growth slowed to 0.1% in May, the lowest rate since October 2009

The Brexit effect meant demand was subdued even where asking prices have fallen 10%-plus

The number of active buyers to available properties has halved over the last year

Viewings between January and April rose 31% compared to 2015

Macro View: The new London Mayor and London housing

As the referendum on Britain's membership of the European Union draws closer, buyers and sellers in prime central London have further grounds for caution in a price-sensitive market.

Demand remains relatively subdued but in a change from recent months, the primary cause in May was the Brexit vote rather than new rates of stamp duty.

Indeed, there are overlapping layers of uncertainty affecting supply and demand that are difficult to differentiate but which produce a cumulative impact.

There has been a discernible "Brexit effect" on the UK economy as decisions are delayed and the London property market is no exception.

Buyers and sellers are postponing decisions because of the prospect of entering uncharted economic and political territory.

The market has become price-sensitive due to higher levels of stamp duty, but an indication of the Brexit effect is that demand in May has remained subdued even for properties where asking prices have fallen by 10% or more.

Demand was already more restrained as a result of the impact of two stamp duty increases in the space of 18 months.

The ratio of active buyers per available property in prime central London has fallen to 4.8 from 10 over the last year, as figure 2 shows.

However, despite the looming referendum, there are signs underlying demand is strengthening as buyers drop asking prices to reflect higher transaction costs.

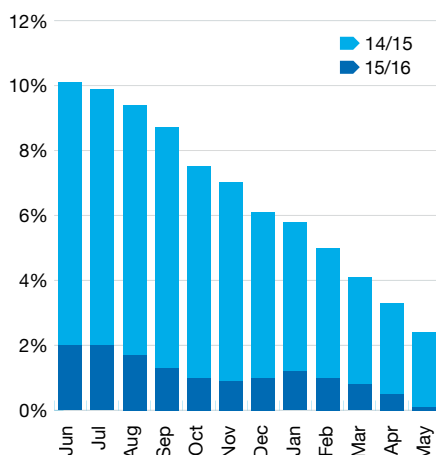
The number of transactions between January and mid-May was flat this year compared to 2015.

Meanwhile, viewings increased 31% between January and April versus last year, suggesting a degree of pent-up demand.

Annual growth fell to 0.1% in May, the lowest rate since October 2009. Overall, prices have grown 2.4% over the last two years and it has been three and a half years since annual growth was last above 10% in October 2012.

FIGURE 1
Price growth eases in prime central London

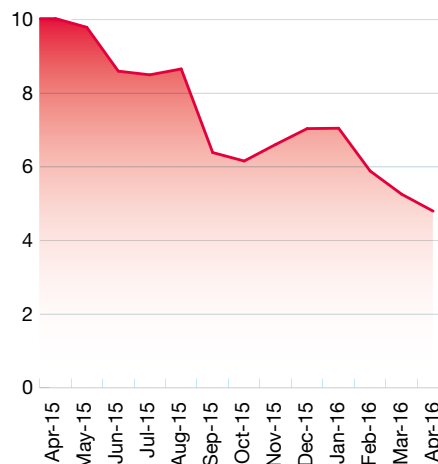
Annual growth in the last year versus the previous 12 months



Source: Knight Frank Research

FIGURE 2
Demand cools over the last year

Average number of prospective buyers to properties in prime central London



Source: Knight Frank Research



TOM BILL
Head of London
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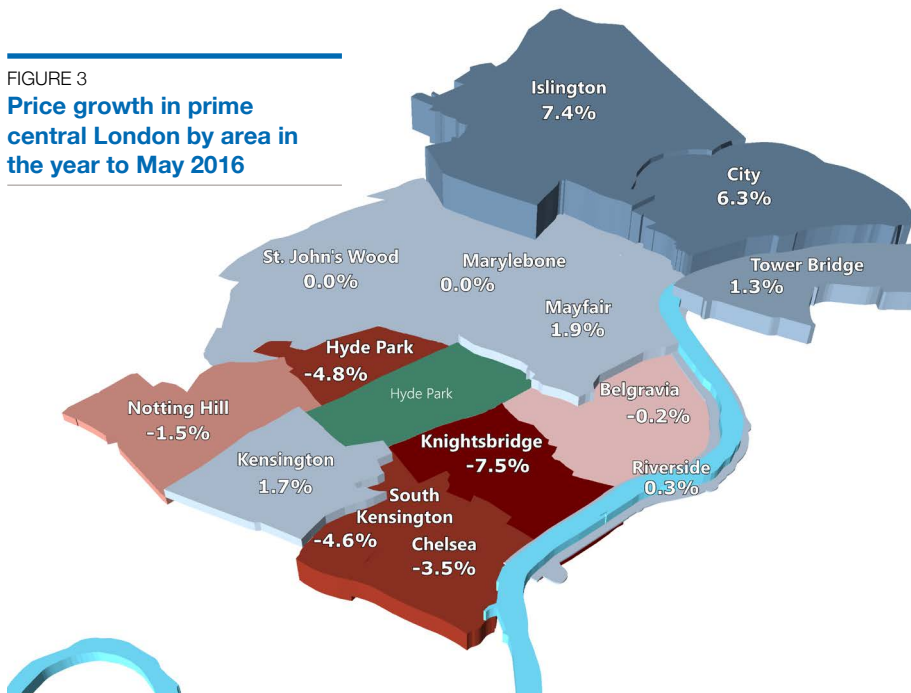
"Buyers and sellers are postponing decisions due to the prospect of entering uncharted economic and political territory"

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PRIME CENTRAL LONDON SALES INDEX

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



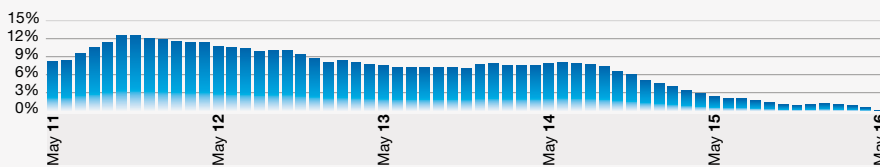
DATA DIGEST

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 repeat 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 MAY 2016 Prime Central London Index | 6,381.4

Annual growth in prime central London over the last five years



THE NEW MAYOR AND LONDON HOUSING

Housing was the key political battleground ahead of May's London Mayoral election, with both candidates pledging to build more homes to address affordability concerns.

Sadiq Khan, the winning candidate, said he wants to double the amount of houses built to 50,000 a year by 2020.

He also plans to increase the number of affordable homes and has talked about tighter restrictions on overseas buyers and controlling rents.

Full details have not emerged but the high level of political scrutiny on housing means the new Mayor is likely to adopt an approach that is economically viable for developers in order to ensure his target is met, said Professor Tony Travers, a local government expert at the London School of Economics.

"All the evidence so far is that pragmatism is triumphing over ideology," he told Knight Frank. "The last thing he will want to do is emit signals that undermine the capacity to deliver at least as many homes as last year. What is essential is that the number of new

homes built doesn't fall."

"What was unusual about the 2016 Mayoral election was that enough numbers were traded by the candidates to create a measurable benchmark, which his opponents in 2020 will point to if he falls short," he said. "With that in mind he needs to keep developers broadly onside."

The relatively slow pace of announcements regarding policies and appointments since Khan won the election, was also a sign of a pragmatic approach, said Travers. "If this is an indication of what is to come, the lack of rash promises suggests the cautious approach of a professional politician," he said.

However, the backdrop of the EU referendum has dominated Khan's early days in office. "If the UK voted to leave and London voted to stay in, the Mayor would be well within his rights to argue for greater autonomy from the rest of the UK to ensure the city's economy is protected."



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