RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

A STAND-OFF EMERGES BETWEEN BUYERS AND SELLERS IN PRIME CENTRAL LONDON

Prices fell in October by the largest amount since the euro zone crisis intensified in the summer of 2010, says Tom Bill

October 2015

Prices fell -0.3% in October, **the steepest monthly decline since summer 2010**

Annual growth slowed to 1%, the lowest rate since October 2009

Greater price sensitivity caused Knight Frank to revise 2016 forecast down to 2% from 4.5%

The number of exchanges in the **three months to September was 17% lower than 2014**

Macro View: London's status as a global financial centre

It has been 11 months since the Chancellor raised stamp duty for properties worth more than £1.1 million.

Despite the fact nearly a year has passed, the consequences have only come into sharper focus in recent weeks.

The spring selling season was overshadowed by the general election and, after a seasonal lull in the summer, the autumn market has been the first reliable test of sentiment since the stamp duty increase.

Autumn is typically a more active time of year but the final months of 2015 have been marked by a stand-off between buyers and sellers.

There is a degree of nervousness around global economic events such as the China slowdown and the fact some markets have experienced strong price growth in recent years, but the stand-off primarily comes down to the arithmetic of higher stamp duty rates.

Buyers calculate it will take them longer to recover the extra stamp duty expense in house price inflation and expect a lower asking price, something vendors are not always willing to concede.

The number of exchanges in the three months to September 2015 was 17% lower than the same period last year. Meanwhile, the number of new prospective buyers was -30% down on the same period in 2014, as figure 2 shows.

As a result of this markedly higher price-sensitivity, Knight Frank has revised down its 2016 forecast for prime central London price growth to 2% from 4.5%.

Prices fell in October by -0.3%, which was the largest decline since the summer of 2010, a period when the euro zone crisis began to escalate following the original bailout of Greece. Annual growth dipped to 1%, which was the lowest level since October 2009.

However, despite the stand-off, there are signs some vendors have realised demand has cooled since the stamp duty increase and where asking prices have come down the market is operating in a normal manner and tapping into underlying demand that remains resilient.

TOM BILL
Head of London Residential Research

"The final months of 2015 have been marked by a stand-off between buyers and sellers"

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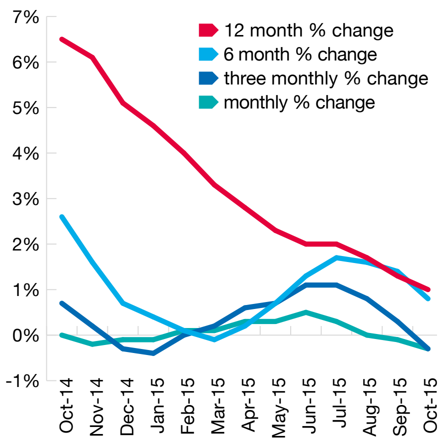
FIGURE 1

Price growth in prime central London

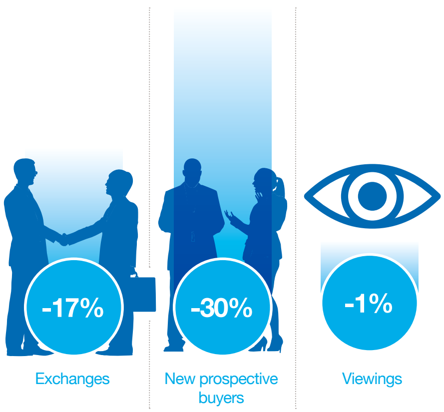


Source: Knight Frank Residential Research

FIGURE 2

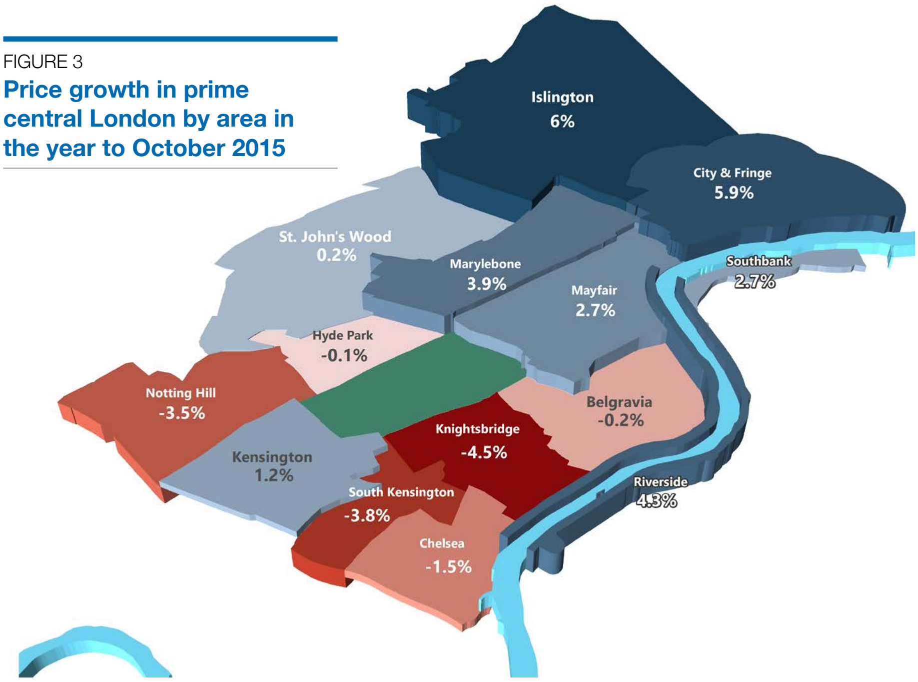
Demand falls in prime central London

Three months to September 2015 vs 2014



Source: Knight Frank Residential Research

FIGURE 3
Price growth in prime central London by area in the year to October 2015



DATA DIGEST

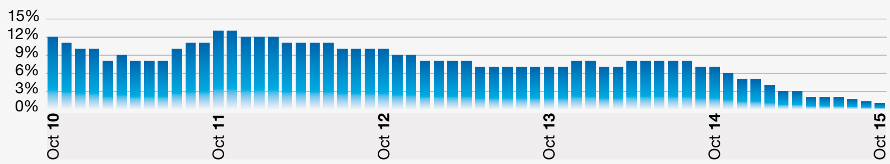
The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. '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 OCTOBER 2015

Prime Central London Index | **6,406.9**

Annual growth in prime central London over the last five years



Chinese President Xi Jinping told the UK it had an important role to play in a united European Union during his state visit in October.

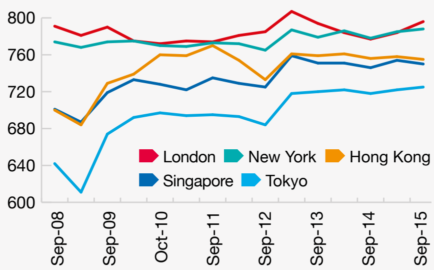
The message suggests he wants the UK to vote to stay in the European Union and flagged it as one of the near term risks London faces.

In this case the messenger was equally as important and highlights a major opportunity for London in the shape of Chinese investment.

The merits of London as a place to do business, which has a direct knock-on effect for the prime sales and lettings markets, has become a live issue in recent weeks. HSBC is reviewing whether to keep its headquarters in London, having cited risks including the EU referendum and the bank levy.

Global Financial Centres Index

(score out of 1,000)



Despite this uncertainty, London regained top spot in the closely-watched Z/Yen Global Financial Centres Index report in September as Chinese jitters hit Asian cities and a majority Conservative government in the UK reduced the risk of further taxation.

Speaking to Knight Frank, lead author and co-creator of the report Mark Yeandle said the referendum risk needs to be seen in context.

"It would take an awful lot to happen over an awfully long period of time for London to lose its liquidity as a major and established financial centre," he said. "Even if the UK were to leave the EU, you won't suddenly have a mass exodus of people."

"Some of the big European banks may eventually repatriate a chunk of their staff but the US banks will still want a European centre and I can't imagine that changing from London," he said. "London won't fall out of the top five, it will never be that catastrophic."

Yeandle added that China would play a key role in heightening the future appeal of London as a place to do business. "Will London become one of the world's major trading centres for the Chinese currency? Clearly, the answer is yes."

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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

Daisy Ziegler
+44 20 7861 1031
daisy.ziegler@knightfrank.com

Knight Frank

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