PRIME CENTRAL LONDON SALES INDEX

A SUBDUED SUMMER IN PRIME CENTRAL LONDON

Buyers have been in restrained mood as they digest a rise in stamp duty and global economic events this summer, though activity is slowly rising, says Tom Bill

AUGUST 2015

Stamp duty rise and China uncertainty **gave some buyers pause for thought**

Annual price growth of 1.7% was the lowest in more than five years

Annual growth is 0.4% in longer-**established prime central London markets**

Sales volumes were down by a fifth in the three months to July compared to 2014

An increase in stock lined up for sale this autumn will spur fresh demand

Macro View: Chinese currency and stock market nerves

TOM BILL
Head of London Residential Research

"Annual growth is largely flat at 0.4% when the newer prime central London markets of Islington, Riverside, City & Fringe and Southbank are removed"

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Demand in prime central London was unsurprisingly restrained in August.

It is typically one of the quieter months of the year, however this seasonal trend was compounded by the fact buyers have been coming to terms with higher stamp duty and uncertainty in global financial markets.

The uncertainty caused by China's currency devaluation is examined in the Macro View on page 2, however the effect on the prime central London property market has been twofold.

One the one hand, it has caused some buyers to postpone decision-making until there is a greater sense of certainty.

On the other, there is evidence Chinese buyers have stepped up their interest in 'safe haven' global property markets like London and are increasingly looking for homes in 'golden postcode' neighbourhoods like Mayfair, although it is too early to discern any impact on transaction levels.

Against this backdrop, annual price growth fell to 1.7% in August, the lowest rate since November 2009, eight months after the market had bounced back from its post-Lehman Brothers low point.

Prices were flat compared to July and rose 0.8% over the last three-month period.

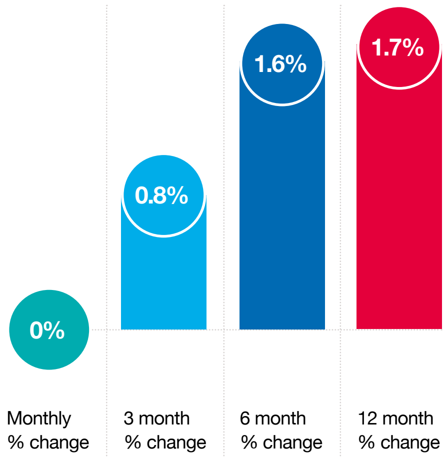
However, annual growth is largely flat at 0.4% when the newer prime central London markets of Islington, Riverside, City & Fringe and Southbank are removed, which shows how the events of the last 12 months have had a greater impact on longer-established higher-value prime central London markets.

The uncertainty has also had an impact on sales volumes though transactions have begun to pick up again since December's surprise increase in the rate of stamp duty for properties worth more than £1.1 million, as figure 2 shows.

In the run-up to the election between January and April, transactions excluding new-build properties were down by an average of -48% compared to a strong 2014 but the gap narrowed to -20% in the three months between May and July.

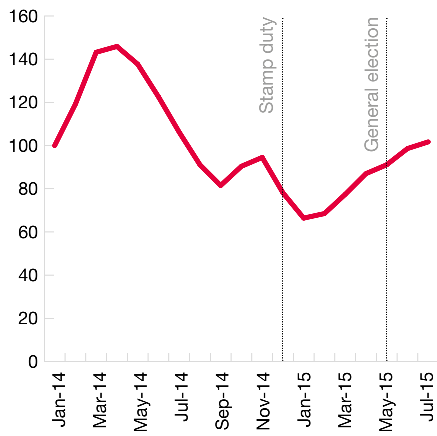
The seasonal nature of the market dictates buyers will become more active in the autumn and a greater sense of normality will return to the market, which will also be driven by the fact vendors are lining up new properties for sale.

FIGURE 1
Price growth in prime central London



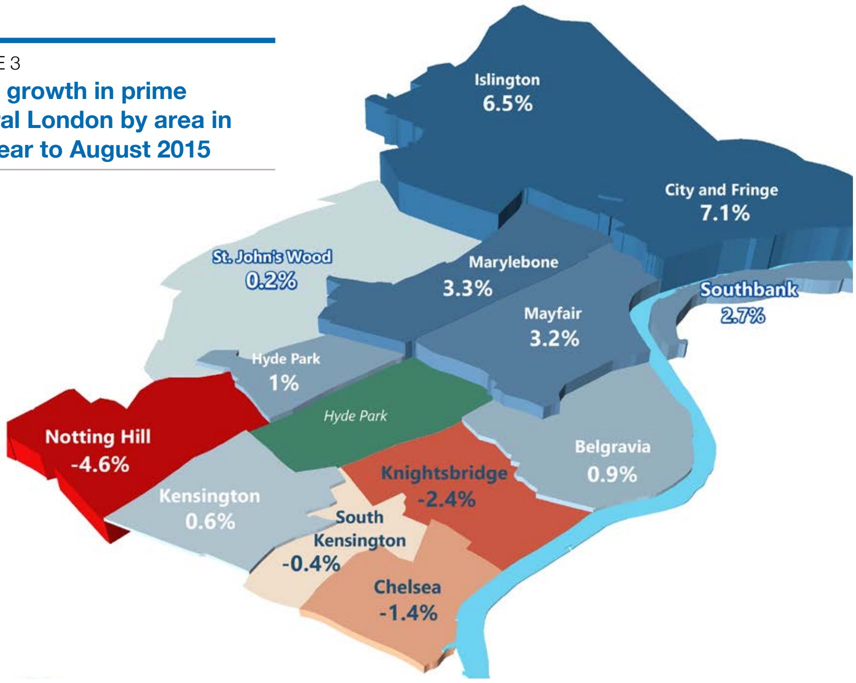
Source: Knight Frank Residential Research

FIGURE 2
Sales volumes in prime central London
(Rebased to 100, 3-month rolling average)



Source: Knight Frank Residential Research

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



DATA DIGEST

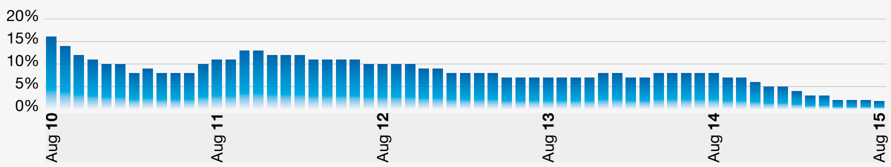
The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property.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

Prime Central London Index | **6427.2**

Annual growth in prime central London over the last five years



China once again dominated the performance of the global economy over the last month.

This time it was the surprise devaluation of the Yuan rather than the performance of the country's stock market that caused the jitters.

It sent the price of various assets lower, including the share price of luxury goods companies, commodities and the dollar, as expectations of a rate rise by the Federal Reserve next month tempered.

The resulting sense of unease at financial institutions has contributed towards slowing rental value growth in prime central London.

Financial markets do not like surprises but an analysis of why China loosened its peg to the dollar suggests panic over the state of its economy was unlikely to have been motive.

The International Monetary Fund recently said the Yuan was overly-managed and it was reserving judgement on its inclusion in a basket of international reserve currencies, a move with long-term benefits for the Chinese economy.

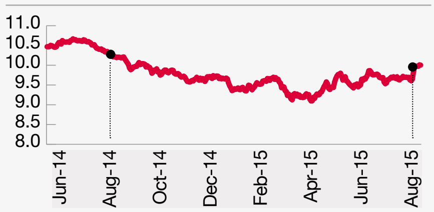
"This slight will not have gone down well in Beijing," said Savvas Savouri, chief economist at asset manager Toscafund. "The timing of the IMF announcement with the move in the Yuan is no coincidence."

"This is a currency whose fundamentals are extremely sound and whose recent moves have been modest by comparison with its general upwards performance," he added.

Questions over the spending power of Chinese buyers in international property markets like London should be seen in the light of the currency's longer-term performance.

Though the Yuan weakened against Sterling in August, it remains stronger than it was 12 months ago, as the chart shows.

Yuan/Pound



In relation to weak manufacturing data in August, Savouri said: "China's economic growth has slowed but the question is will Beijing respond and will it work? I am convinced it will and can. Interest rates are there to be cut and the falling price of oil and other resources will free up spending."

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