

The prime central London sales index is based on repeat valuations of second-hand stock and does not include new-build property, although units from completed developments are included over time.

NEW BUYER REGISTRATIONS HIT A THREE-YEAR HIGH IN PRIME CENTRAL LONDON

Buyers remain price-sensitive but there are early signs that price declines will ease in 2017, says Tom Bill

April 2017

The number of new prospective buyer registrations in Q1 2017 **hit its highest level since Q1 2014**

Viewing levels in Q1 2017 **were 28% above the same period in 2016**

The number of exchanges **fell 11% year-on-year in Q1 2017** due to last year's activity spike in March ahead of a stamp duty rise

Average prices across PCL **fell 6.6% in the year to April**

Average prices fell 0.1% in April, which means prices are down by 6.6% over the last 12-months, and by 7.2% in total since the market peak in August 2015.

Demand-side indicators have been positive in recent months with the number of new prospective buyers registering to purchase in the first quarter of 2017 hitting levels last seen in Q1 2014.

At the same time, the number of viewings between January and March 2017 was 28% higher than 2016. The sharp increase is partially explained by the growth in new applicants but also the ability of buyers in a slower market to view properties multiple times before making an offer.

This improvement in demand is not as yet reflected in the number of property exchanges. Knight Frank data reveals an 11% year-on-year fall in Q1 2017. This year-on-year comparison is undoubtedly distorted due to the spike in activity seen last March, ahead of the introduction of the additional rate of stamp duty in April. A longer-term

comparison reveals that exchanges in Q1 2017 were 3% higher than Q1 2015.

A review of LonRes data confirms the same distortive effect, with Q1 2017 sales down -25% compared to Q1 2016.

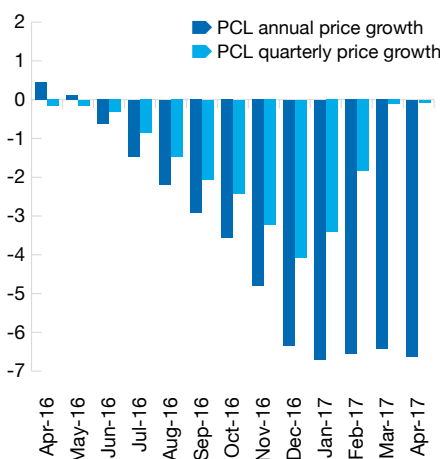
The evidence continues to point to improving demand and a bottoming out of price declines this year as buyers and sellers adapt to higher rates of stamp duty.

If this renewed interest is not yet reflected in sales data it is a fair assumption there will be some improvement in sales volumes during Q2 despite the General Election on 8 June.

While it seems likely sales will improve, it doesn't seem plausible that the same will be true for prices, at least in the short-term. Buyers remain very price sensitive, although there is anecdotal evidence of isolated but growing instances of competitive bidding on properties.

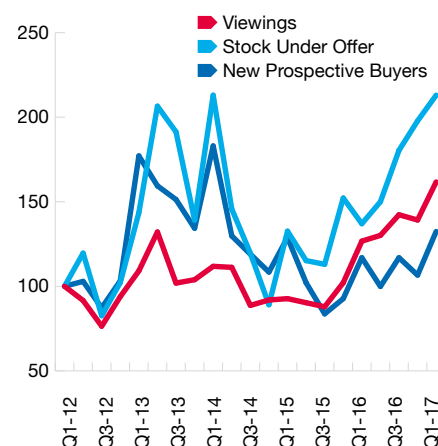
Our central case forecast is for price growth to be flat during 2017 as a whole.

FIGURE 1
Price declines bottom out in 2017



Source: Knight Frank Research

FIGURE 2
Demand strengthens in prime central London
Rebased to 100 in Q1 2012



Source: Knight Frank Research



TOM BILL
Head of London
Residential Research

"It is a fair assumption there will be some improvement in sales volumes during Q2 despite the General Election on 8 June"

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MACROVIEW | THE UK GENERAL ELECTION

The decision to call a general election for 8 June creates a degree of uncertainty in the prime central London property market.

However, there are grounds to believe there is unlikely to be a material impact on sales and lettings demand in the run-up to the vote.

Property is no different to other markets in disliking uncertainty but it is worth putting the seven-week campaign in context. The time between the announcement of an EU referendum and the vote was more than four months.

Furthermore, an analysis of sales transactions in London since 1995 shows general elections have a far smaller impact on activity than seasonal buying patterns or tax changes. The lettings market typically has an even less discernible reaction than the sales market.

Evidence that this election will have a smaller impact than previous votes was also demonstrated by the reaction of currency markets. The rise of Sterling underlined how opinion polls show there is less doubt surrounding the result than in 2015 as well

as the belief in financial markets that a strengthened Conservative majority to enable a softer version of Brexit.

Additionally, the prime central London sales market is in recovery mode as it adapts to tax changes that include higher rates of stamp duty. Despite the current unpredictable nature of global political and economic events, the pricing adjustment taking place in prime central London to higher transaction costs is prosaic by comparison.

Another effect of the general election has been the shelving of proposals to change non-dom regulations, including the extension of inheritance tax to include UK residential property held offshore, due to time constraints ahead of the election.

The key question is whether the proposals are likely to be resurrected after the election or does this signal a rethink.

On the basis that the non-dom legislation was one of many items dropped from the Draft Finance Bill, a rethink appears unlikely.

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.



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FIGURE 3

Annual price growth by price band and property type

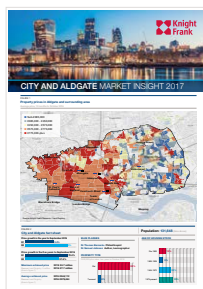
Prime Central London Index

5,962.6

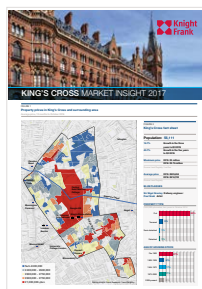
	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.3%	-0.2%	-0.3%	-0.2%	0.0%	-0.2%	-0.2%
3 months	0.1%	-0.3%	-0.1%	0.3%	-0.3%	0.0%	-0.1%
6 months	-2.4%	-4.2%	-3.8%	-2.6%	-3.6%	-3.7%	-3.2%
1 year	-5.0%	-7.4%	-7.0%	-6.1%	-6.7%	-7.1%	-6.0%
YTD	0.0%	-0.5%	-0.5%	0.2%	-0.7%	-0.4%	-0.2%



London Review Spring 2017



City and Aldgate market insight 2017



King's Cross market insight 2017



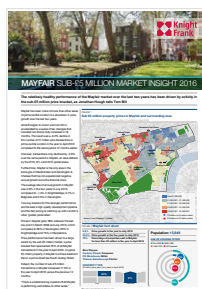
Riverside market insight 2017



Victoria and Westminster Market insight 2017



Marylebone market insight 2016



Mayfair market insight 2016



Prime Central London Rental Index April 2017

RESIDENTIAL RESEARCH

Tom Bill

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

PRESS OFFICE

Harry Turner

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

Jamie Obertelli

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



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