RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

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.

PRIME CENTRAL LONDON BEGINS TO RECOVER FROM STAMP DUTY IMPACT

Political uncertainty still provides grounds for caution but buyers and sellers sense more stable market conditions, says Tom Bill

March 2018

Average prices declined 1.1% in the year to February

Trading volumes rose 2% in the 12 months to February

The average asking price reduction between £1 million and £5 million was 9.9% in the year to February

The number of properties listed for sale was 5.4% higher in February 2018 than the same month last year

Macroview: The politics of Brexit

Average prices in prime central London fell 1.1% in the year to March.

It was the fourth consecutive marginal annual adjustment and means prices are 8% below their previous peak in August 2015.

As pricing in prime central London has stabilised, so have trading volumes. There was a 2% increase in sales volumes in the year to February 2018 compared to the previous 12-month period, LonRes data shows.

While the market remains sensitive to political events there currently appears to be a sense of (relative) stability being restored

The impact of stamp duty has been substantially absorbed and is now an accepted cost of transacting.

Indeed, an analysis of asking price reductions over the last year shows pricing has more than adjusted to take higher transaction costs into account. This over-compensation suggests the market has also undergone a process of self-correction following the bull market run between 2009 and 2014.

The average asking price adjustment for sales between £1 million and £5 million was -9.9% in the year to February 2018, LonRes data shows. To put this in context, the difference between the new and old rates of stamp duty as a percentage of a £5 million sale is 3.3%. For a £2 million sale, the equivalent figure is 2.7%.

There is evidence that property owners are responding to the fact pricing and sales volumes are bottoming out.

The number of properties listed for sale in prime central London was 5.4% higher in February 2018 than the same month last year, Rightmove data shows. Meanwhile, the equivalent difference in the lettings market was -21.2%, which will also reflect the recent additional tax burdens for landlords.

However, we do not believe the sales market is poised to enter a strong upswing in terms of pricing or trading volumes. As we discuss in Macroview on page 2, political uncertainty surrounding the Brexit process and the finely-balanced arithmetic in Parliament is providing continued grounds for caution.

TOM BILL
Head of London Residential Research

"The impact of stamp duty has been substantially absorbed and is now an accepted cost of transacting."

Follow Tom at @TomBill_KF

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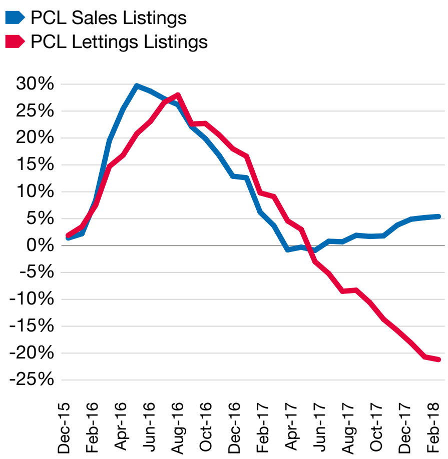
FIGURE 1

More owners decide to sell than let

Annual % change in listings in PCL

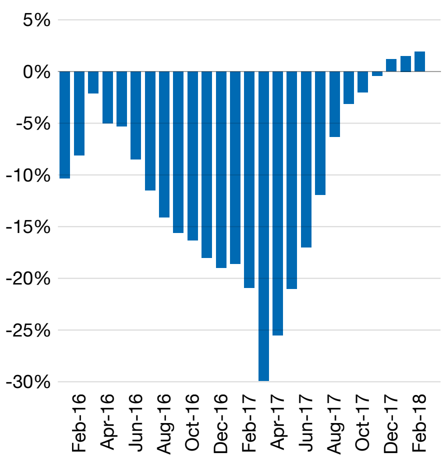


Source: Knight Frank Research / Rightmove

FIGURE 2

Transactions on the rise

Annualised % change in transaction volumes



Source: Knight Frank Research / LonRes

MACROVIEW | THE POLITICS OF BREXIT

Political uncertainty is one of the key factors limiting liquidity and causing uncertainty in prime central London sales and lettings markets.

The finely-balanced Parliamentary arithmetic creates uncertainty over the stability of the government, which is aggravated by Brexit.

However, March brought some signs of progress between the UK and EU as both sides agreed a transitional deal.

It is significant because it avoids a so-called 'cliff edge' for businesses, which will have 21 months after Brexit to adapt to life outside of the EU. It also creates a sense of momentum that will raise the stakes for any group of MPs who may wish to derail the process.

There has also been a subtle shift in position on the part of the EU in relation to financial services, a sector that is a key driver of demand in the prime central London property market.

The latest draft of the EU's negotiating guidelines refers to market access for financial services based on "reviewed and improved equivalence rules".

While the exact meaning of this is unclear, it marks a departure from its previous public statements that a trade deal including financial services was not on the table.

It implies access for UK companies on the EU's terms, which is something the UK rejects in favour of a system where both sides set the rules.

One way through the impasse could be a proposal from the International Regulatory Strategy Group for financial services to be included in a free trade agreement, but with a joint dispute resolution body and mechanisms for mutual market access.

The fact so many EU companies have a financial interest in the UK is also likely to have a strong bearing on trade talks, said Savvas Savouri, the chief economist of asset manager Toscafund.

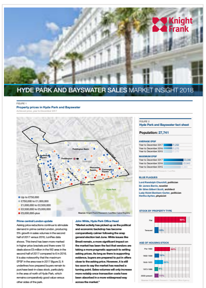
"A pleasant resolution would not happen out of any selfless benevolence towards the UK, but because an uninterrupted transition out of the EU serves their financial interests," he said.

FIGURE 3

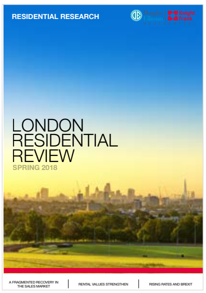
Price growth by price band, time period and property type Prime Central London Index | **5,911.1**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	0.1%	-0.3%	-0.2%	0.0%	0.0%	-0.2%	0.1%
3 months	-0.5%	-0.5%	-0.6%	-0.3%	-0.6%	-0.7%	-0.1%
6 months	-0.6%	-0.6%	-0.9%	0.0%	-0.5%	-0.9%	0.0%
1 year	-1.5%	-1.4%	-1.8%	1.2%	0.0%	-1.6%	0.1%
YTD	-0.5%	-0.5%	-0.6%	-0.3%	-0.6%	-0.7%	-0.1%


Prime Central London Lettings Index March 2018


Hyde Park and Bayswater Market Insight 2018


London Super-Prime Lettings 2018


London Review Spring 2018


Belgravia Market Insight 2017


Marylebone Market Insight 2017


Residential Market Update


Prime Country House Index

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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