RESIDENTIAL RESEARCH

Knight Frank

LONDON RESIDENTIAL REVIEW

SPRING 2017

PRIME LONDON SALES AND LETTINGS MARKET ANALYSIS

SALES AND LETTINGS MARKET PERFORMANCE MAP

DATA DIGEST

KEY FINDINGS

21%

The effective discount for a buyer denominated in US dollars between the EU referendum and the end of February 2017

Q4 2016

Knight Frank undertook more transactions in prime central London in this period than the same quarter in 2015 or 2014

-6.6%

Price growth in the year to February 2017 in prime central London

-1.5%

Price growth in the year to February 2017 in prime outer London

TOM BILL
Head of London Residential Research

"Traditional safe haven assets like gold and secure government bonds have seen fresh investor inflows in the first quarter of the year"

PRIME LONDON SALES MARKET INSIGHT

Signs of stability emerge against an uncertain political backdrop

Transaction volumes in prime London picked up during the final quarter of 2016 and demand has remained relatively healthy through the first quarter of this year.

Asking prices have been revised down as a result of higher rates of stamp duty, a process that has has supported more stable levels of activity.

In the six months to February 2017, Knight Frank undertook a fifth more transactions in prime central London than the equivalent period last year and 2% more than the same period two years ago.

Furthermore, a marginal price rise in February of 0.1% meant the rate of annual price growth eased to -6.6% in prime central London in a sign that price declines may be close to bottoming out. The trend underpins our expectation that growth will be flat in 2017.

However, the wider market backdrop is likely to remain uncertain during the rest of 2017 and several key themes will run through the year.

First, the formal process of the UK leaving the European Union will begin. While the negotiations will merit a lot of media coverage, it should be remembered that Brexit has only had a marginal impact on the prime London property market to date.

Stamp duty has been the primary cause of the recent market slowdown and Chancellor Phillip Hammond is the politician who will continue to wield the most influence over the market.

London could also benefit from geopolitical uncertainty, including a full calendar of European elections and a US President whose style marks a break with convention.

Traditional safe haven assets like gold and secure government bonds have seen fresh investor inflows in the first quarter of the year and it is the same trend that has traditionally benefitted the prime central London property market.

Sterling has weakened markedly since the referendum. A US buyer moving to prime central London would have benefitted from an effective discount of 21% between the EU referendum and February given currency and house price movements. It was the same figure for an Indian and Hong Kong buyer, while the figure was 17% for a Chinese buyer and 28% for a Russian.

Sterling is likely to remain relatively weak versus the dollar in 2017 against the background of higher infrastructure spending, inflation and rate rises in the US. However, some anticipate a weaker dollar as part of a drive to stimulate US trade, a conflicting scenario that underlines how waiting for the bottom for sterling is a high-risk strategy.

FIGURE 1
Prime central London price growth by price bracket

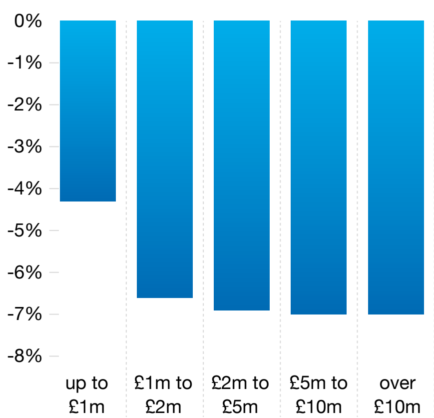
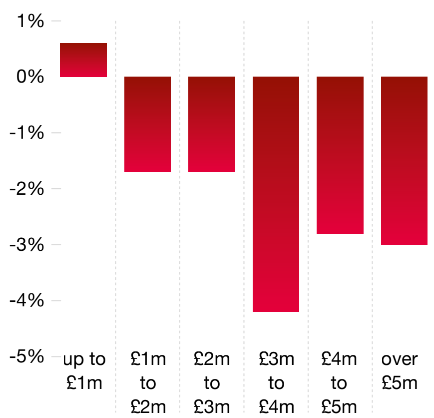


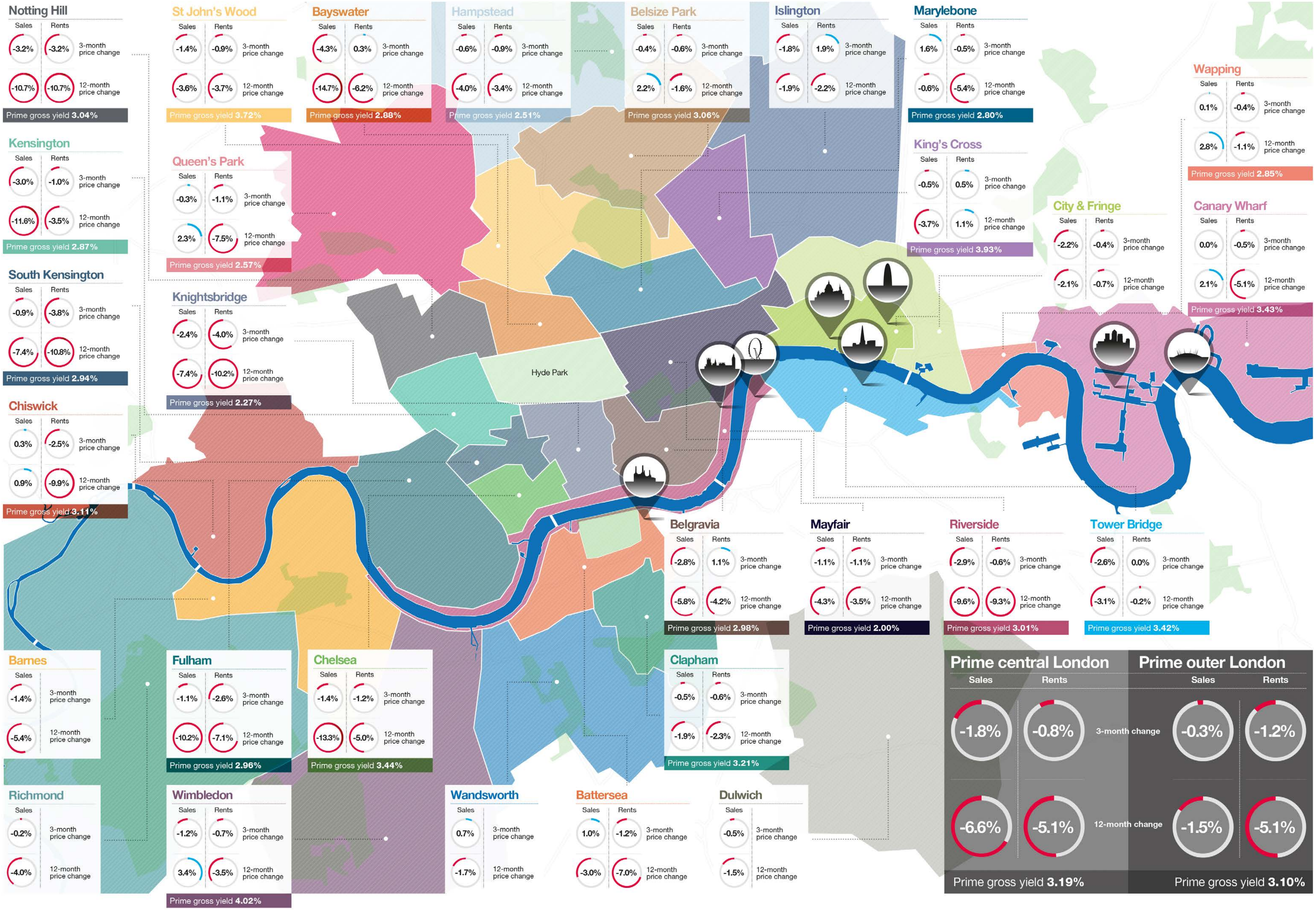
FIGURE 2
Prime outer London price growth by price bracket



Source: Knight Frank Research

Please refer to the important notice at the end of this report

PRIME LONDON PRICE AND RENTAL GROWTH, FEBRUARY **2017**



Notting Hill
	Sales	Rents
3-month price change	-3.2%	-3.2%
12-month price change	-10.7%	-10.7%

Prime gross yield **3.04%**

St John's Wood
	Sales	Rents
3-month price change	-1.4%	-0.9%
12-month price change	-3.6%	-3.7%

Prime gross yield **3.72%**

Bayswater
	Sales	Rents
3-month price change	-4.3%	0.3%
12-month price change	-14.7%	-6.2%

Prime gross yield **2.88%**

Hampstead
	Sales	Rents
3-month price change	-0.6%	-0.9%
12-month price change	-4.0%	-3.4%

Prime gross yield **2.51%**

Belsize Park
	Sales	Rents
3-month price change	-0.4%	-0.6%
12-month price change	2.2%	-1.6%

Prime gross yield **3.06%**

Islington
	Sales	Rents
3-month price change	-1.8%	1.9%
12-month price change	-1.9%	-2.2%

Marylebone
	Sales	Rents
3-month price change	1.6%	-0.5%
12-month price change	-0.6%	-5.4%

Prime gross yield **2.80%**

Wapping
	Sales	Rents
3-month price change	0.1%	-0.4%
12-month price change	2.8%	-1.1%

Prime gross yield **2.85%**

Kensington
	Sales	Rents
3-month price change	-3.0%	-1.0%
12-month price change	-11.6%	-3.5%

Prime gross yield **2.87%**

Queen's Park
	Sales	Rents
3-month price change	-0.3%	-1.1%
12-month price change	2.3%	-7.5%

Prime gross yield **2.57%**

King's Cross
	Sales	Rents
3-month price change	-0.5%	0.5%
12-month price change	-3.7%	1.1%

Prime gross yield **3.93%**

City & Fringe
	Sales	Rents
3-month price change	-2.2%	-0.4%
12-month price change	-2.1%	-0.7%

Canary Wharf
	Sales	Rents
3-month price change	0.0%	-0.5%
12-month price change	2.1%	-5.1%

Prime gross yield **3.43%**

South Kensington
	Sales	Rents
3-month price change	-0.9%	-3.8%
12-month price change	-7.4%	-10.8%

Prime gross yield **2.94%**

Knightsbridge
	Sales	Rents
3-month price change	-2.4%	-4.0%
12-month price change	-7.4%	-10.2%

Prime gross yield **2.27%**

Chiswick
	Sales	Rents
3-month price change	0.3%	-2.5%
12-month price change	0.9%	-9.9%

Prime gross yield **3.11%**

Belgravia
	Sales	Rents
3-month price change	-2.8%	1.1%
12-month price change	-5.8%	-4.2%

Prime gross yield **2.98%**

Mayfair
	Sales	Rents
3-month price change	-1.1%	-1.1%
12-month price change	-4.3%	-3.5%

Prime gross yield **2.00%**

Riverside
	Sales	Rents
3-month price change	-2.9%	-0.6%
12-month price change	-9.6%	-9.3%

Prime gross yield **3.01%**

Tower Bridge
	Sales	Rents
3-month price change	-2.6%	0.0%
12-month price change	-3.1%	-0.2%

Prime gross yield **3.42%**

Barnes
	Sales
3-month price change	-1.4%
12-month price change	-5.4%

Fulham
	Sales	Rents
3-month price change	-1.1%	-2.6%
12-month price change	-10.2%	-7.1%

Prime gross yield **2.96%**

Chelsea
	Sales	Rents
3-month price change	-1.4%	-1.2%
12-month price change	-13.3%	-5.0%

Prime gross yield **3.44%**

Clapham
	Sales	Rents
3-month price change	-0.5%	-0.6%
12-month price change	-1.9%	-2.3%

Prime gross yield **3.21%**

Richmond
	Sales
3-month price change	-0.2%
12-month price change	-4.0%

Wimbledon
	Sales	Rents
3-month price change	-1.2%	-0.7%
12-month price change	3.4%	-3.5%

Prime gross yield **4.02%**

Wandsworth
	Sales
3-month price change	0.7%
12-month price change	-1.7%

Battersea
	Sales	Rents
3-month price change	1.0%	-1.2%
12-month price change	-3.0%	-7.0%

Dulwich
	Sales
3-month price change	-0.5%
12-month price change	-1.5%

Prime central London / Prime outer London
	Prime central London Sales	Prime central London Rents	Prime outer London Sales	Prime outer London Rents
3-month change	-1.8%	-0.8%	-0.3%	-1.2%
12-month change	-6.6%	-5.1%	-1.5%	-5.1%

Prime central London: Prime gross yield **3.19%**

Prime outer London: Prime gross yield **3.10%**

KEY FINDINGS

-1.2%
Annual rental value growth in prime central London between £250-£500 in the year to February 2017

20%
Year-on-year increase in new lettings properties on the market in the six months to February 2017, down from 37% over the preceding six months

0.3%
Annual rental value growth in prime outer London between £250-£500 in the year to February 2017

January 2017
Third highest monthly viewing levels in Canary Wharf for two years

PRIME LONDON LETTINGS MARKET INSIGHT

A greater sense of equilibrium has been established between supply and demand

Activity in the prime London lettings market in the first two months of 2017 has been higher than the same period last year, as figure 7 on page 6 shows.

While the performance of local markets has varied, the overall rise in the number of tenancies agreed and viewings reflects the degree of uncertainty that remains in the sales market.

Across prime central London, rental value declines have begun to bottom out as the rate of growth in the supply of new lettings properties coming onto the market slows, which has increased the balance between demand and supply.

While there was a 20% year-on-year increase in new rental properties coming onto the market in the six months to February 2017, this was lower than the 37% increase recorded over the preceding six months.

Slightly lower rents, combined with a less favourable tax environment for landlords from April 2017, allied to the fact that falls in capital values are slowing (see page 2), means the supply of rental stock could fall in 2017 as landlords consider their options.

While supply tightens, tenant demand in prime central London continues to strengthen, particularly at higher and lower price points.

At above £5,000 per week, in the super-prime market, demand remains strong among tenants, some of whom are waiting for more clarity on the direction of the sales market before buying. The number of super-prime rental deals rose 5% in 2016 versus 2015, LonRes data shows.

Activity is also comparatively stronger below £1,500 per week, with the smallest rental value declines in February registered below £500 per week. Demand at this level has been underpinned by a greater acceptance of renting as a tenure model by young professionals, as well as the fact some corporate accommodation budgets have been cut, thereby increasing demand in lower price brackets.

For rental properties between £1,500 and £5,000 per week, activity is improving but remains comparatively slower than other price brackets. A critical issue is budget restrictions for senior executives relocating to London due to wider economic uncertainty.

The nature of some relocation packages are also changing, which means housing costs are increasingly rolled up into a single overall allowance, meaning some tenants are more prudent with their accommodation costs.

This belt-tightening has also impacted some prime outer London lettings markets like Wimbledon, which has also seen demand dip among oil companies.

However, demand is buoyant in other markets like Clapham, which is popular among tech companies, and Richmond, which is close to some major west London employers.

In Canary Wharf, there are no signs that Brexit is curbing overall demand. After an initial slowdown in the second half of last year, January 2017 recorded the third highest number of viewings in two years and a record rent of approximately £4,500 per week was achieved.

FIGURE 3
Prime central London rental value growth by price bracket

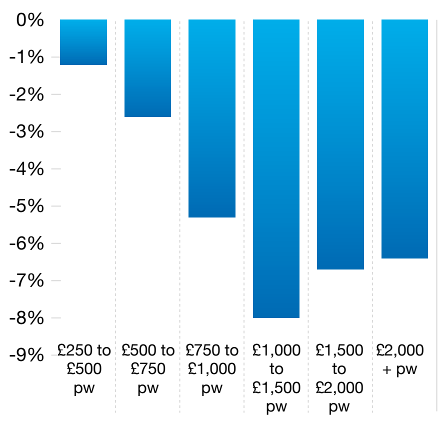
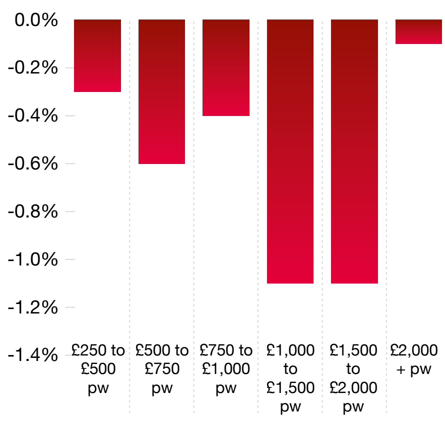


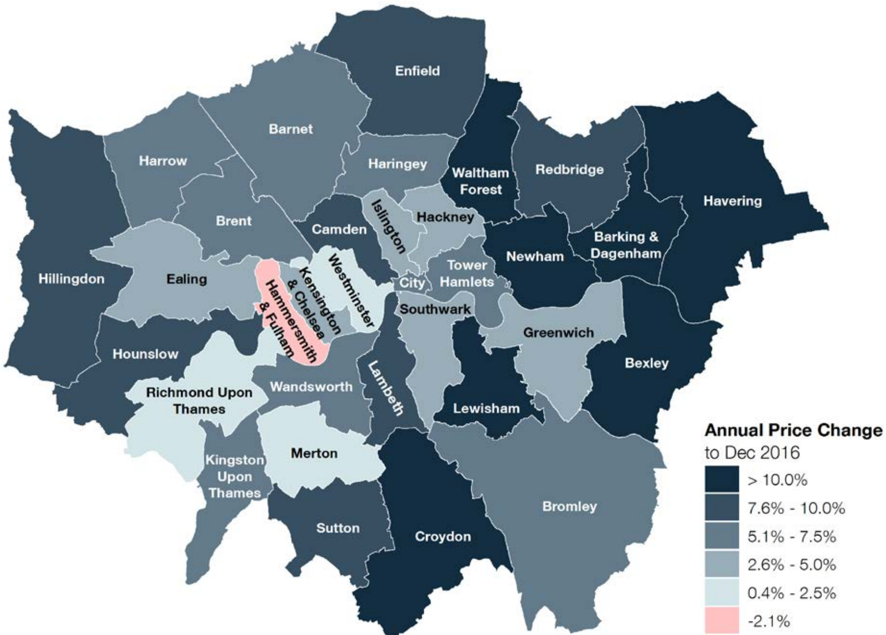
FIGURE 4
Prime outer London rental value growth by price bracket



DATA DIGEST

FIGURE 5

Price growth across the whole London market Year to December 2016



Source: Land Registry

FIGURE 6

Sales market supply and demand indicators (rebased to 100 at January 2015)

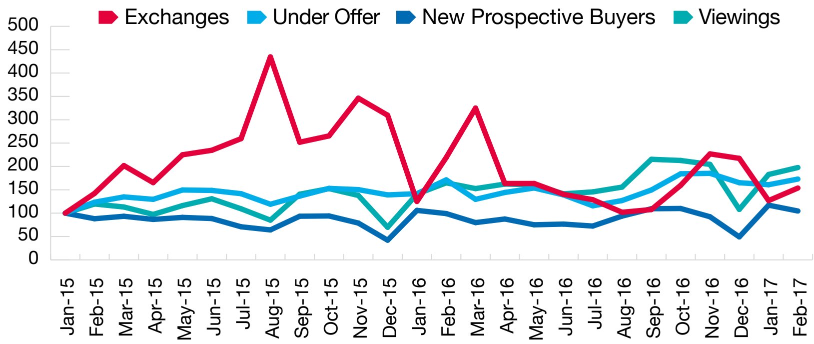
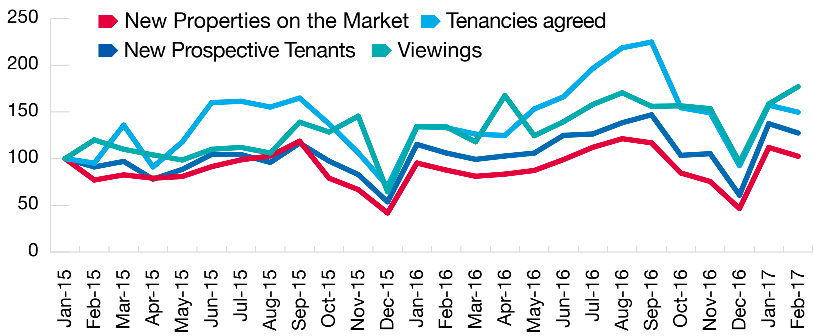


FIGURE 7

Lettings market supply and demand indicators (rebased to 100 at January 2015)



Source: Knight Frank Research

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