Residential sales activity in prime central London was stronger this August than last year, though remained relatively subdued due in part to the seasonal summer lull.

However, there are grounds for cautious optimism that activity will intensify over the next few months, as recent stamp duty increases and, to a lesser extent, the vote to leave the European Union continue to act as catalysts for overdue price adjustments.

While there remains a high level of speculation over the impact of Brexit on the prime London property market, it remains too early to discern its likely long term impact.

As with the broader economy, any profound change in performance will only become clearer over the next year or two, depending on the outcome of a protracted period of negotiations between the EU and the UK.

Brexit has added to a backdrop of political and economic uncertainty, it has also acted as an incentive for action in the two months since the vote.

 Buyers denominated in overseas currencies are benefitting from an effective discount of more than 10% since the start of the year due to the depreciation of Sterling. Meanwhile, Brexit has been the trigger for some vendors to reduce asking prices to levels that take higher rates of stamp duty and the new economic and political climate into consideration.

Prices in prime central London fell -1.8% in the year to August, the steepest decline since October 2009. There remain differences across the region, with the largest annual decline of -8.9% in Chelsea, compared to positive growth of 0.7% in Mayfair and smaller declines of -0.9% in Marylebone and -0.8% in Belgravia. Meanwhile, the recent declines in Knightsbridge appear to be bottoming out as asking prices align with higher expectations.

Despite the summer lull, leading indicators of activity remain strong. In the eight weeks following the referendum, the number of new prospective buyers rose 22.1% compared with the same period in 2015, as figure 2 shows. The number of properties under offer rose 19%, while viewing levels increased by almost half.

It is still early for firm conclusions of future market moves following the EU referendum, however the worst of the initial forecasts appear to have been avoided to date. The tentative improvement in some demand indicators provide grounds to believe the prime central London market is set for at least a modest recovery in trading volumes, whether this translates into an uptick in pricing is less clear.
The conflicting economic data since the UK voted to leave the European Union are shaping a consensus view that it remains too risky but are not prepared to take on legal, technical or planning risk without an appropriate level of margin.”

“Developers are managing their margins by focussing on details like containing construction costs and refining their schemes to price and the quality of individual developments, it is misleading to generalise about particular locations or price brackets. ‘Prime London’ cannot be priced at a premium.”

Average residential development land prices fell for the third consecutive quarter in Q2 this year, dropping by 6.9%, as higher taxation impacted the viability of schemes. Average values were down 9.4% on an annual basis, meaning the index has returned to 2014 levels after several years of exceptional growth.

“We have come out of a bull market and now we are operating in normal market conditions,” said Marris. “These are the circumstances when you see very different relative levels of performance across prime central London. Product that is not best-in-class cannot be priced at a premium.”

In a market where demand is so sensitive to price and the quality of individual developments, it is misleading to generalise about particular locations or price brackets.

“Two schemes side-by-side can be performing very differently. The assessment of risk needs to factor in multiple characteristics but for developers who have benchmarked properly and done their homework deals are being done.”

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.