

PRIME CENTRAL LONDON ASKING PRICES MODERATE AS MARKET SELF-CORRECTS

As policy makers intervene to cool UK house price growth, the market in prime central London is self-correcting, says Tom Bill

JUNE 2014

Prices rise 0.8% in June as
annual growth reaches 8.1%

After 44 months of growth, there are signs buyers have become more cautious

Exchanges, viewings and new applicants are down on a year ago

Strongest growth was 15.7% in the eastern areas of Islington and City & Fringe

Strong growth north of Hyde Park means values will start to catch up with traditional prime areas further south



TOM BILL

Head of London Residential Research

“Slowing growth shows market forces are alive and well as increasingly price-sensitive buyers cause the market to self-correct.”

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Bank of England governor Mark Carney was likened to an ‘unreliable boyfriend’ by Treasury Select Committee member Pat McFadden in June.

The accusation was prompted by a perception Carney had given mixed signals about when the base rate will rise from its historic low of 0.5%.

The merits of raising interest rates, introducing stricter affordability tests and curtailing the government’s Help to Buy scheme are part of a wider debate over how far the government and central bank should intervene in the UK housing market to cool price inflation.

Prime central London buyers are not typically swayed by modest interest rate rises or stricter affordability tests.

Instead, slowing growth shows market forces are alive and well as increasingly price-sensitive buyers cause the market to self-correct.

There is uncertainty surrounding next May’s general election and how potential tax changes could affect the market but there is also a sense buyers are cautious about asking prices after 44 consecutive months of growth.

As figure 1 shows, exchanges, viewings and new applicants were down in June 2014 versus the same month last year.

Despite the fact underlying demand is softening, price growth was 8.1% in the year to June 2014 after a monthly rise of 0.8%.

Though prices are still growing and there is no indication a decline is likely, initial asking prices are now achieved with less frequency.

Price growth was strongest in the Islington and City & Fringe markets, where prices rose 15.7%, as the map on page 2 shows.

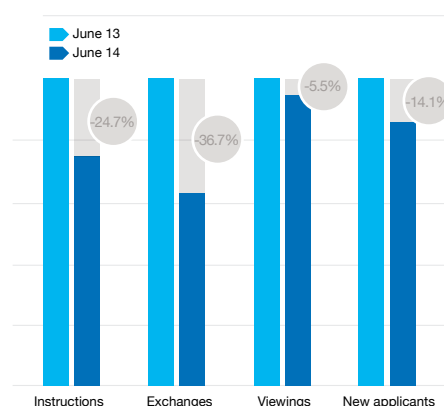
Elsewhere, Hyde Park, Marylebone and Notting Hill also recorded strong rises as buyers continued to look beyond the traditional markets further south.

To some degree, prices in these districts are catching up with areas further south such as Chelsea and Belgravia, which may start to act as a brake on growth.

By price bracket, the sub-£2 million market recorded the strongest growth of 13.6% in the year to June. That compared to 4.9% in the £5 million to £10 million price bracket and 3.5% for £10 million –plus properties.

FIGURE 1

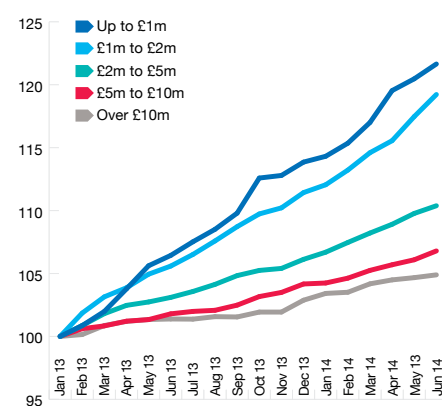
A decrease in exchanges, viewings and new applicants



Source: Knight Frank Residential Research

FIGURE 2

Price growth in prime central London by price bracket (Rebased to 100)

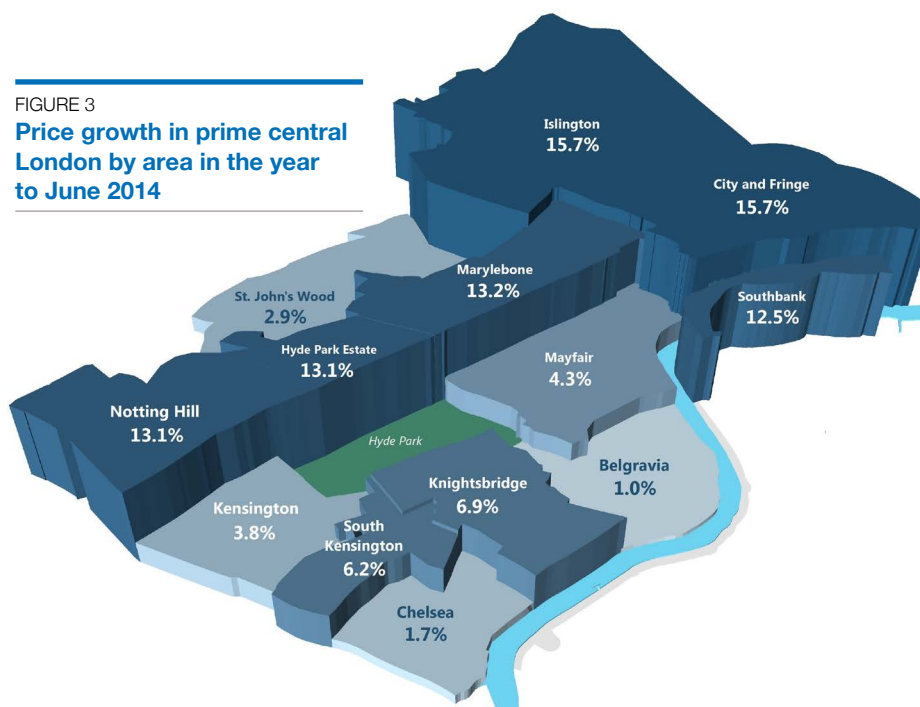


Source: Knight Frank Residential Research

PRIME CENTRAL LONDON SALES INDEX

FIGURE 3

Price growth in prime central London by area in the year to June 2014



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, Regent's Park, St John's Wood, Riverside* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to include 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.

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Jun-13	5,807.1	7.2%	3.9%	1.7%	0.4%
Jul-13	5,836.2	7.2%	4.1%	1.5%	0.5%
Aug-13	5,868.4	7.2%	3.7%	1.5%	0.6%
Sep-13	5,908.3	7.2%	3.5%	1.7%	0.7%
Oct-13	5,955.5	7.2%	3.6%	2.0%	0.8%
Nov-13	5,969.0	7.0%	3.2%	1.7%	0.2%
Dec-13	6,017.9	7.7%	3.6%	1.9%	0.8%
Jan-14	6,043.6	7.8%	3.6%	1.5%	0.4%
Feb-14	6,083.4	7.5%	3.7%	1.9%	0.7%
Mar-14	6,135.1	7.5%	3.8%	1.9%	0.8%
Apr-14	6,182.4	7.5%	3.8%	2.3%	0.8%
May-14	6,231.2	7.8%	4.4%	2.4%	0.8%
Jun-14	6,278.7	8.1%	4.3%	2.3%	0.8%
Apr-14	6,182.4	7.5%	3.8%	2.3%	0.8%
May-14	6,231.2	7.8%	4.4%	2.4%	0.8%
Jun-14	6,278.7	8.1%	4.3%	2.3%	0.8%

Source: Knight Frank Residential Research

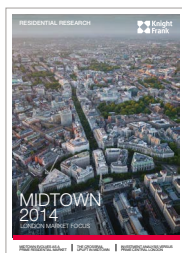
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