PRIME CENTRAL LONDON SALES INDEX

PRIME CENTRAL LONDON SHOWS SIGNS OF SPRINGTIME MOMENTUM

Lower asking prices and a stamp duty deadline added a sense of impetus in March, says Tom Bill

March 2016

Transaction volumes rose in March compared to last year, the first increase in 2016

Deals were driven by the 3% stamp duty rise in April and **double-digit declines in asking prices**

Annual growth slowed to 0.8%, **the lowest figure for more than six years**

Knight Frank forecasts a **-2% decline in western markets and 5% growth in eastern markets in 2016**

Macro View: Bonus season in prime central London

TOM BILL
Head of London Residential Research

"There is a growing recognition on the part of vendors that the prime central London property market is no longer on the upwards trajectory it was in the years following the financial crisis"

Follow Tom at @TomBill_KF

For the latest news, views and analysis on the world of prime property, visit Global Briefing or @kfglobalbrief

Two trends drove demand higher for prime central London property in March.

The first was the April deadline for the new additional rate of stamp duty. As confirmed by Chancellor George Osborne in the March Budget, buy-to-let investors and second-home buyers will pay an extra three percentage points of stamp duty from April this year.

The incentive to act before April was one of the reasons Knight Frank sales volumes in March exceeded last year's figure. This bucked the trend of the first quarter of 2016, where volumes were flat in January and marginally down in February.

However, the other factor at play is a marked slowdown in the rate of annual growth over the last 18 months. It is the result of a series of tax changes and a preceding period of exceptional growth, which is also a topic that is increasingly covered by the media.

As a result, there is a growing recognition on the part of vendors that the prime central London property market is no longer on the upwards trajectory it was in the years following the financial crisis.

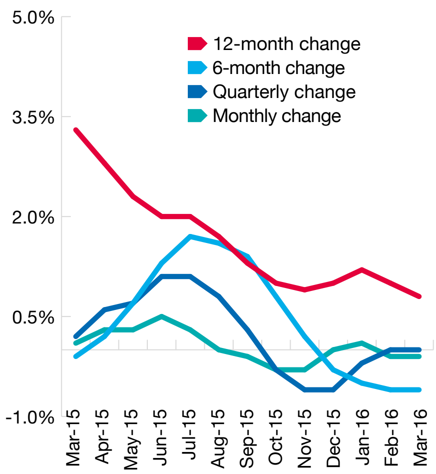
As vendors become more attuned to current market conditions and adjust asking prices, the effect is to drive demand. Asking prices are typically declining by in excess of 10% to attract price-sensitive buyers.

Annual price growth in March was 0.8%, which is the lowest figure since October 2009, when a -3.2% decline was recorded as the market found its feet following the collapse of Lehman Brothers.

However, as the map on page 2 shows, growth is increasingly polarised. In higher-value western areas around Hyde Park, recent tax changes have had more of a dampening impact. Meanwhile, the opposite is true in traditionally lower-value markets including Islington and the City & Fringe.

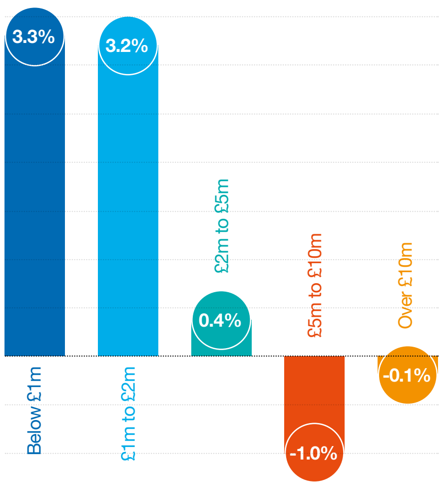
As a result of this polarisation, Knight Frank forecasts a -2% decline in western markets and 5% growth in markets east of Mayfair and south of the River Thames in 2016.

FIGURE 1
Price growth in prime central London
Period to March 2016



Source: Knight Frank Research

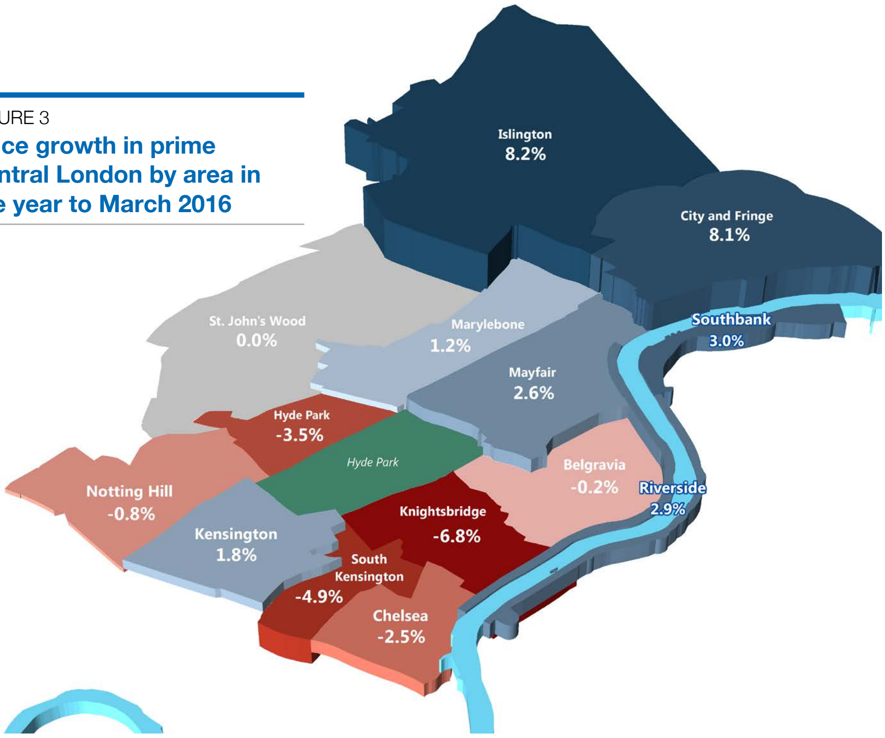
FIGURE 2
Stronger growth in lower price brackets
Annual growth in March 2016 by price band



Source: Knight Frank Research

PRIME CENTRAL LONDON SALES INDEX

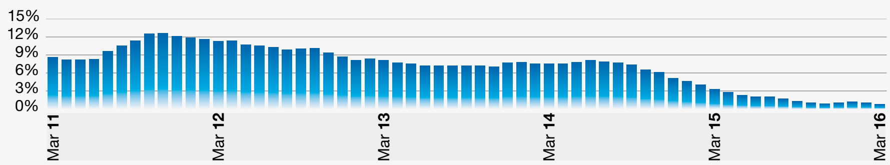
FIGURE 3
Price growth in prime central London by area in the year to March 2016



THE MACRO VIEW MARCH 2016

Prime Central London Index | **6,387.1**

Annual growth in prime central London over the last five years



BONUS SEASON IN PRIME CENTRAL LONDON

In similar fashion to most UK residential markets, demand in prime central London rises in the spring.

The effect was more pronounced before the global financial crisis, when bonus payments were more prevalent, particularly from the financial services industry.

The banking industry continued its recovery in 2015 following the collapse of Lehman Brothers in 2008, key data shows.

Global mergers and acquisitions (M&A) activity reached $3.8 trillion in 2015 according to Bloomberg, beating a previous 2007 record. There was also a 16% increase in the value of European stock market flotations according to accountant PWC. This was despite a 16% decline in London.

However, while the flow of deals is rising, there are no indications bonuses will start to materially drive property demand. This is due to a pervading mood of market uncertainty as well as fundamental changes in the banking sector.

"The banking industry is finding a new normal and the heady days of old are, in most cases, a distant memory," said Nick Miller, head of corporate and institutional banking at executive recruitment company Odgers Berndtson.

"Bonuses are down 10% to 15% across the board and the criteria for getting them have become tougher. Furthermore, promotions to managing director level are happening significantly later in people's career."

While he acknowledges M&A activity is rising, he says a number of "large bumper deals" are skewing the figures.

The slowdown has also been magnified by banks reducing headcount and winding down fixed income, currencies and commodities operations, Miller added.

The sentiment is echoed by James Pace, head of Knight Frank's Chelsea office, "In the old days we would see a pick-up in activity in the first two months of the year from bankers who had an idea what their bonus would be. That has now completely disappeared and the market kicks into life later."

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.

RESIDENTIAL RESEARCH

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

PRESS OFFICE

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

Daisy Ziegler
+44 20 7861 1031
daisy.ziegler@knightfrank.com