RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

This report 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.

PRICE DECLINES SHOW SIGNS OF BOTTOMING OUT IN PRIME CENTRAL LONDON

Demand indicators, sales volumes and price growth are showing signs of stabilisation in the first quarter of 2017, says Tom Bill

March 2017

The number of properties under offer was 22% higher year-on-year in the three months to February

The number of exchanges was 13% higher year-on-year in February

Annual price growth eased to -6.4% in March and quarterly growth strengthened to -0.1%

The number of £20million-plus deals in the first quarter was only exceeded in the last quarter of 2014

Macroview: The implications of a weak sterling

Trends in price growth in central London are pointing towards an end to the falls we saw in 2016.

Annual growth improved slightly to -6.4% as quarterly growth climbed to –0.1%, the highest level since May 2016, as figure 1 shows.

This stabilisation process began in the last quarter of 2016 following a lull in transaction activity in the middle of last year. The period followed a spike in activity in March ahead of a stamp duty rise. Uncertainty generated by the EU referendum was also a factor behind the slowdown.

Leading demand indicators have turned increasingly positive in October, a process that is now having an impact on pricing and should contribute to flat price growth in 2017.

The number of properties under offer in the three months to February 2017 was 22% higher year-on-year, while the number of viewings was up 25% and the number of new prospective buyers registering was 4% higher.

As figure 2 shows, this has had an impact on the number of exchanges, which across our network was 13% higher year-on-year in February.

Transactions in higher price brackets have had a relatively robust start to 2017, reflecting a favourable exchange rate, reduced asking prices and strong demand for the best-located and specified properties which, in some instances, has led to competitive bidding.

The total number of £20million-plus deals recorded in the first quarter of 2017 was last exceeded in the last quarter of 2014, a period that experienced a rush of deals ahead of a stamp duty hike.

The wider political background remains uncertain as formal Brexit discussions get underway, however the realignment of asking prices to reflect higher rates of stamp duty remains the primary driver of activity. As we discuss in the Macroview section on page 2, a weak sterling is likely to continue to drive demand for London property.

TOM BILL

Head of London Residential Research

"The number of £20million-plus deals recorded in the first quarter of 2017 was only exceeded in the last quarter of 2014"

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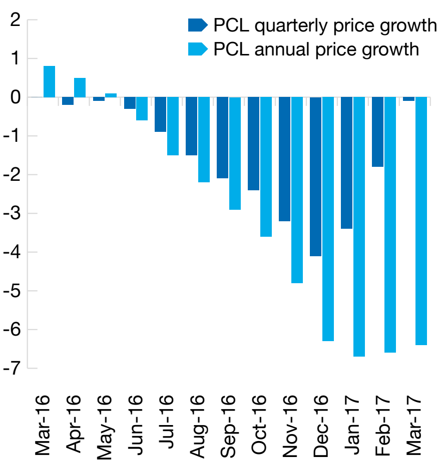
FIGURE 1

Price growth bottoms out

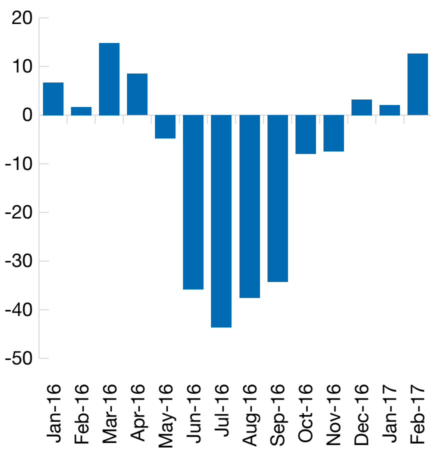


Source: Knight Frank Research

FIGURE 2

Year-on-year transaction change

Three-month rolling average



Source: Knight Frank Research

MACROVIEW | A WEAK STERLING

After the UK government triggered the formal process to leave the European Union on 29 March, the pound showed a degree of volatility on foreign exchange markets but was broadly unchanged against the dollar on previous days' trading.

Since the EU referendum in June, sterling has weakened markedly. A US buyer in 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 buyer.

It is an example of how the currency markets are likely to act as a "shock absorber" for the UK economy as formal Brexit talks get underway, said Savvas Savouri, chief economist at asset manager Toscafund.

"The immediate reaction to the pound falling is that it must be a bad thing which is absurd because, as we have seen, it can help the economy," said Savouri.

Furthermore, he believes the competitive advantage that a weak pound would imply for the UK compared to the EU in the event of no deal is a primary reason that such a scenario is unlikely. "I believe the outcome will be something like what we know as soft Brexit because of this shock absorber advantage."

The weakness of sterling is part of the reason overseas capital is targeting the UK more generally. "It seems like nobody has told China about Brexit and their interest goes beyond London," said Savouri.

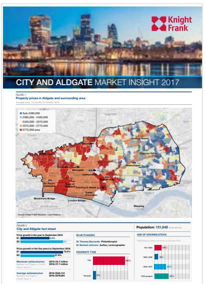
FIGURE 3 **The pound versus the US dollar**

FIGURE 4
Price growth by price band and property type

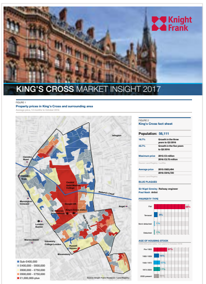
Prime Central London Index **5975.9**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	0.3%	-0.2%	0.1%	0.4%	0.1%	0.0%	0.2%
3 months	0.3%	-0.2%	-0.3%	0.4%	-0.7%	-0.1%	0.0%
6 months	-3.2%	-4.6%	-4.5%	-3.5%	-4.5%	-4.4%	-3.8%
1 year	-4.6%	-7.2%	-6.7%	-6.2%	-6.5%	-6.8%	-5.9%
YTD	0.3%	-0.2%	-0.3%	0.4%	-0.7%	-0.1%	0.0%

London Review Spring 2017



City and Aldgate market insight 2017

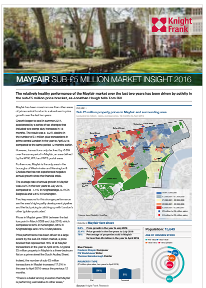


King's Cross market insight 2017

Riverside market insight 2017

Victoria and Westminster Market insight 2017

Martlebone market insight 2016



Mayfair market insight 2016

Prime Central London Rental Index March 2017

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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