



Stamp duty changes and fears of Grexit leave prime London house prices unmoved, for now

Prime central London residential prices are nearly 50% above their post-Lehman low, reached in March 2009, and are now more than 12% higher than their March 2008 peak. Liam Bailey, Knight Frank's Head of Residential Research, investigates.

Results for May 2012

Prime central London property prices rose 0.7% in May 2012, contributing to annual growth of 10.7%

Prices have risen 47.3% since their post-credit-crunch low in March 2009

Prices are now at a record high, 12.1% higher than their previous peak in March 2008

Prices in the sub-£2m and the £2m+ bracket rose 2.7% and 1.6% respectively in the two months to the end of May (following the imposition of the new 7% £2m+ stamp duty rate)

"Last October we forecast that 2012 would see an additional 5% growth in prices. Just five months into the year, we have already seen 4.7%. Unsurprisingly the key question from clients is whether we are overdue an upgrade to our forecast?"

"Among all the issues impacting the market, two are of critical importance: the new stamp duty rate of 7% for £2m+ properties and associated uncertainty surrounding company purchases, and the Eurozone crisis.

"The early evidence is that the market has absorbed the 7% stamp duty rate fairly well. Price growth in the two months since the Budget change has been slower in the £2m+ sector than the sub-£2m bracket, 1.6% as opposed to 2.7%, but it has remained positive.

"Sales volumes and new applicants in the £2m+ sector were broadly flat in April and May, down 1% and 2% respectively on the same period in 2011.

"Looking at the second issue, while our forecast was based on an assumption that the Eurozone would remain unified, we did assume that growing tensions would continue to drive flight capital into the London market, especially from

the Eurozone periphery, and this is precisely what has happened.

"While it looks very much that the surge in Greek buyers has fallen off sharply since the beginning of the year – those who had the funds to buy have done so – we are now seeing a noticeable uptick in interest from France, Italy, Spain and even German-based purchasers looking at the prime London market.

"If the crisis in the Eurozone leads to a break-up, will this flow of funds continue to London? The final form of a break-up will dictate that. Any country which seems at imminent risk of ejection is likely to see a massive outflow of capital, some of which will end up in bricks and mortar in London. But if we are left with a small core around Germany, the value of that smaller bloc's currency is likely to surge against Sterling, reducing demand from those countries.

"The knock-on economic impact on the UK, and the global economy, means London would be caught between weaker economic conditions and a desire from investors for safe assets. Though there is scope for further growth, for the moment we are leaving our 5% growth forecast of the whole of 2012 untouched."

Figure 1
Monthly price change
Prime central London average residential price change

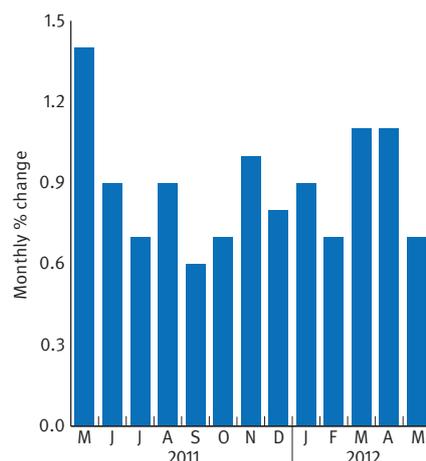
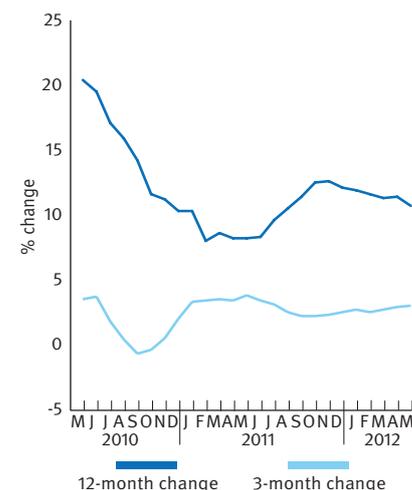


Figure 2
Annual and quarterly growth
Prime central London average residential price change



"Though there is scope for further growth, for the moment we are leaving our 5% growth forecast of the whole of 2012 untouched."



Liam Bailey, Head of Residential Research

RESIDENTIAL RESEARCH PRIME CENTRAL LONDON INDEX

Knight Frank



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, 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.

Key market metrics

Prime central London market activity, three months to May 2012 compared to same period last year

	All	Under £5m	Over £5m
Demand			
New applicants	9.7%	-3.9%	-1.2%
Viewings	9.1%	9.2%	3.6%
Supply			
New instructions to sell	-6.1%	-6.0%	10.7%
Stock volume	12.9%	16.7%	22.3%
Activity			
Sales (subject to contract)	37.7%	8.3%	-4.1%
Exchanges	-3.8%	-11.2%	11.9%
Demand and supply balance			
Ratio of new applicants/new instructions 2011	3.5	3.9	4.4
Ratio of new applicants/new instructions 2012	4.1	4.0	3.8

Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
May-10	4,487.7	20.4%	10.3%	3.5%	1.4%
Jun-10	4,526.4	19.5%	9.0%	3.7%	0.9%
Jul-10	4,506.0	17.1%	7.3%	1.8%	-0.5%
Aug-10	4,503.9	15.9%	3.9%	0.4%	0.0%
Sep-10	4,496.1	14.2%	3.0%	-0.7%	-0.2%
Oct-10	4,485.7	11.6%	1.4%	-0.4%	-0.2%
Nov-10	4,524.3	11.2%	0.8%	0.5%	0.9%
Dec-10	4,583.9	10.3%	1.3%	2.0%	1.3%
Jan-11	4,633.7	10.3%	2.8%	3.3%	1.1%
Feb-11	4,679.7	8.0%	3.9%	3.4%	1.0%
Mar-11	4,742.5	8.6%	5.5%	3.5%	1.3%
Apr-11	4,790.8	8.2%	6.8%	3.4%	1.0%
May-11	4,856.9	8.2%	7.4%	3.8%	1.4%
Jun-11	4,902.7	8.3%	7.0%	3.4%	0.9%
Jul-11	4,937.0	9.6%	6.5%	3.1%	0.7%
Aug-11	4,979.1	10.5%	6.4%	2.5%	0.9%
Sep-11	5,010.9	11.4%	5.7%	2.2%	0.6%
Oct-11	5,047.2	12.5%	5.4%	2.2%	0.7%
Nov-11	5,095.2	12.6%	4.9%	2.3%	1.0%
Dec-11	5,138.3	12.1%	4.8%	2.5%	0.8%
Jan-12	5,185.5	11.9%	5.0%	2.7%	0.9%
Feb-12	5,222.0	11.6%	4.9%	2.5%	0.7%
Mar-12	5,278.9	11.3%	5.3%	2.7%	1.1%
Apr-12	5,338.2	11.4%	5.8%	2.9%	1.1%
May-12	5,378.1	10.7%	5.6%	3.0%	0.7%

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