

BUYER CAUTION SPARKS FLIGHT TO QUALITY IN PRIME CENTRAL LONDON

The autumn selling season has begun but early indications suggest the subdued mood of 2015 persists as higher stamp duty means buyers have become more circumspect, says Tom Bill

September 2015

Annual price growth declined to 1.3%, the lowest rate since October 2009

Annual price declines were in excess of -3% in some markets in the west

New prospective buyers declined -34% but viewings only fell by -4%

Sales volumes in September rose from August and were on track to match September 2014

Rising transaction costs appear to have sparked a flight to quality

Macro View: Politics and prime central London

September marked the start of the autumn selling season in prime central London, a time of year when transactions traditionally rise.

Activity has certainly increased following a subdued summer period as buyers came to terms with an increase in stamp duty and a July Budget that curbed exemptions surrounding resident non-doms.

Furthermore, some high-quality stock has come onto the market, which has driven demand. The volume of sales in September has risen since August and was on track to match September 2014.

However, rising supply is not uniform across prime central London and there is not yet clear evidence that new demand will keep pace with any supply increase. New applicant levels are down -34% compared to September 2014, though this decrease is partly explained by a growing trend among buyers to find the right property on the internet before registering.

Underlying demand remains strong but buyers have become more circumspect and stringent in their requirements due to the stamp duty increase. The strength of underlying demand

is demonstrated by the fact that viewings have only declined -4% compared to September 2014.

This heightened price sensitivity among buyers has resulted in a flight to quality, meaning demand is particularly strong for properties in the best condition and on a prime floor, street or square.

So, while the anticipated gear change materialised as summer moved into autumn, there was no sense the market is entering full-blown recovery mode after what has been a subdued 2015.

Prices fell -0.1% in September and annual growth declined to 1.3%, which was the lowest since October 2009 following the collapse of Lehman Brothers a year earlier.

An east/west divide around Hyde Park has emerged more clearly, as the map on page 2 shows. Prices have declined by more than 3% in some markets to the west, possibly due to the greater concentration of high-value properties subject to higher rates of stamp duty.



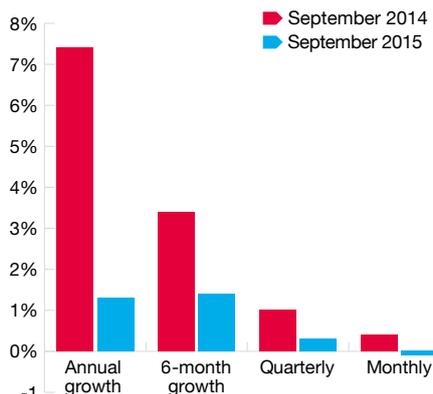
TOM BILL
Head of London Residential Research

“Heightened sensitivity to price among buyers has resulted in a flight to quality”

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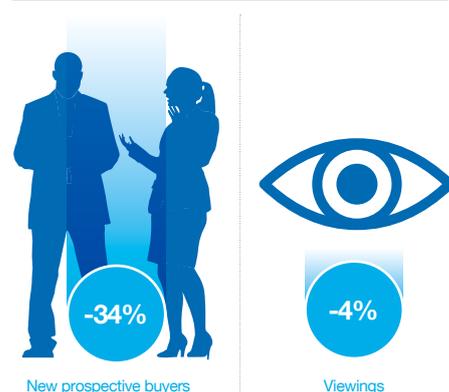
FIGURE 1
Price growth in prime central London declines since 2014



Source: Knight Frank Residential Research

FIGURE 2
Buyers are fewer and more selective

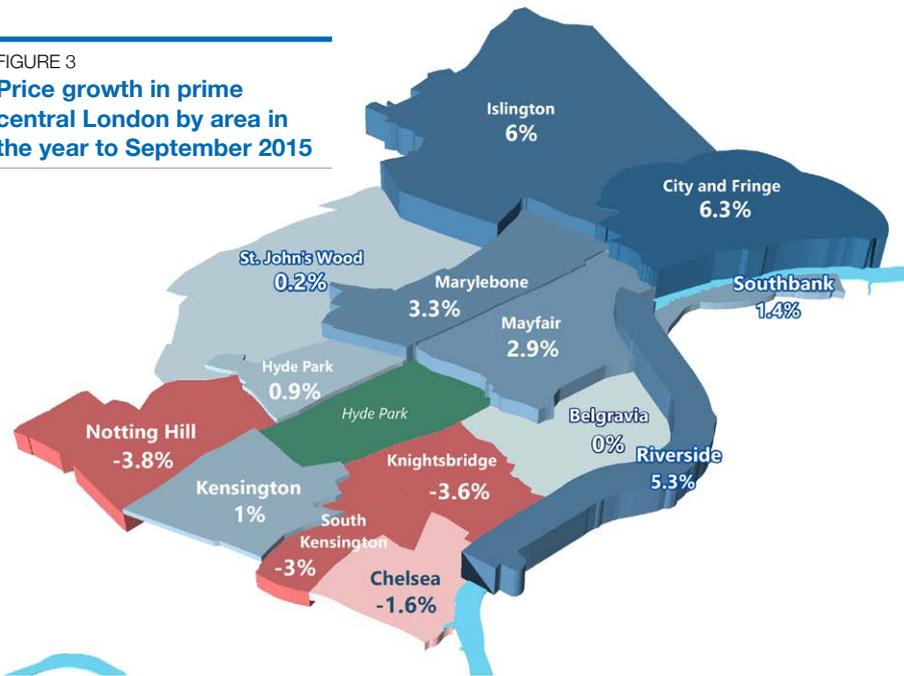
Annual change in new prospective buyers and viewings, September 2015



Source: Knight Frank Residential Research

PRIME CENTRAL LONDON SALES INDEX

FIGURE 3
Price growth in prime central London by area in the year to September 2015

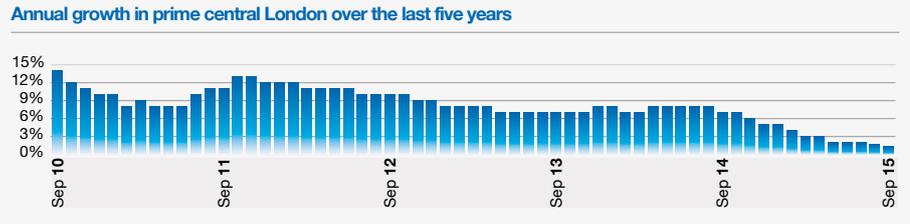


DATA DIGEST

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.

THE MACRO VIEW SEPTEMBER 2015 Prime Central London Index | 6,423.5



While a lot has changed in UK politics over the last 12 months, housing has remained one of the most live issues.

As attention turns to party conference season and then to next May's London Mayoral election, the prime London sales and rental markets may again become the subject of proposals aimed both winning votes and addressing supply shortages.

However, the Mayor's powers are limited in their scope compared to central government, said Professor Tony Travers, a local government expert at the London School of Economics.

Speaking to Knight Frank, he said: "There is always a risk of more heat than light during the Mayoral campaign. Often, Mayoral candidates are tempted to opine about things over which they have no powers such as rent controls and overseas buyers, but I'm not sure there is much the Mayor could do without central government help."

Rather, the Mayor's key role is to tackle affordability concerns at their root by facilitating more housebuilding, Travers said. "The big challenge for any Mayor is the level of house building that needs to be achieved compared

to the current reality. While it's easy to focus on foreign buyers, the knock-on effect is that it would effectively cut the amount of social and affordable housing."

On rent controls, Travers said the rental market could move up the political agenda as more Londoners become tenants, despite not tackling the supply problem at its root. "There may come a point when the balance tips in politicians' minds that there are votes to be had," he said.

For now, Travers believes George Osborne's latest increase in the rate of stamp duty for properties worth more than £1.1 million in December will reduce the level of political focus due to the dampening effect it has had on price growth and transaction volumes.

"There are fewer possible policy changes around the top-end of the London housing market for any Mayor to get their hands on anyway," he told Knight Frank.

Meanwhile, at a national level, strong indications from within Whitehall suggest the government is providing more resources and thinking more profoundly about how to increase housing supply for both the sales and private rented sector.

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