PRIME CENTRAL LONDON SALES INDEX

DEMAND STRENGTHENS IN HIGHER-PRICE BRACKETS IN PRIME CENTRAL LONDON

Leading indicators of demand and transaction activity above £2 million are showing tentative signs of improvement, says Tom Bill

September 2016

Annual price growth was **-2.1% in the year to September 2016**

The number of new prospective buyers between £2 million and £5 million rose **8.7% between January and August year-on-year**

The total number of properties under offer was up by **39.3% between January and August year-on-year**

The average number of days a property remained on the market was **14% higher between January and August this year versus 2015**

Macro View: Financial services in post-Brexit London

There are embryonic signs of strengthening demand in the prime central London residential market as higher rates of stamp duty are increasingly reflected in asking prices.

While it would be premature to suggest an inflection point is approaching, leading indicators are turning positive in the £2 million to £5 million price bracket, a section of the market that has felt the effects of higher stamp duty more markedly than other segments, as figure 2 shows.

The number of new prospective buyers registering in that price bracket rose 8.7% between January and August 2016 compared to the same period in 2015. Meanwhile, the total number of registered buyers and properties under offer rose 9.2% and 8.7% respectively over the same period.

Stamp duty remains a decidedly bigger influence on the market than the EU referendum and in some instances the uncertainty surrounding Brexit has been a catalyst for overdue price reductions. Combined with a favourable currency movement for buyers denominated in overseas currencies, this has created added momentum in the market in recent months.

This is demonstrated by the fact demand indicators have been even stronger in the three months to August, as figure 2 shows. Between £2 million and £5 million, viewings rose by more than two-thirds compared to the same period in 2015.

Demand in lower price brackets remains stronger and across the whole market the total number of properties under offer was up by 39.3% while new prospective buyers rose by 26.2% in the three months to August on a year-on-year basis.

This increased activity has yet to translate into higher transaction levels and overall volumes remain down by just under a fifth compared to 2015. Furthermore, in a sign that some buyers remain cautious, the average number of days a property remained on the market was 14% higher between January and August this year than 2015.

Prices fell -2.1% in the year to September 2016, with regional divergences that included -8.9% in Chelsea and 3.6% in Islington.

TOM BILL
Head of London Residential Research

"While it would be premature to suggest an inflection point is approaching, leading indicators are turning positive in the £2 million to £5 million price bracket"

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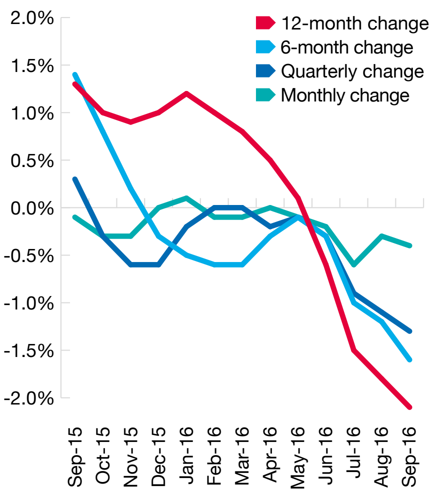
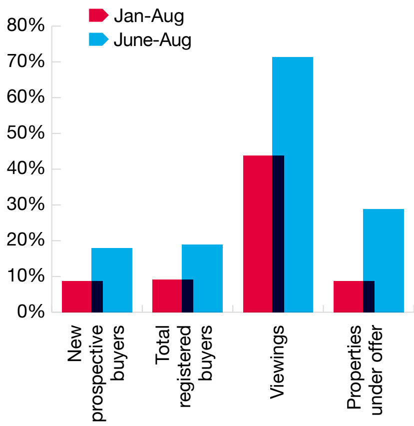
FIGURE 1
Price growth in prime central London



Source: Knight Frank Research

FIGURE 2
Demand strengthens in higher price brackets
Leading indicators between £2 million and £5 million, 2016 versus 2015



Source: Knight Frank Research

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

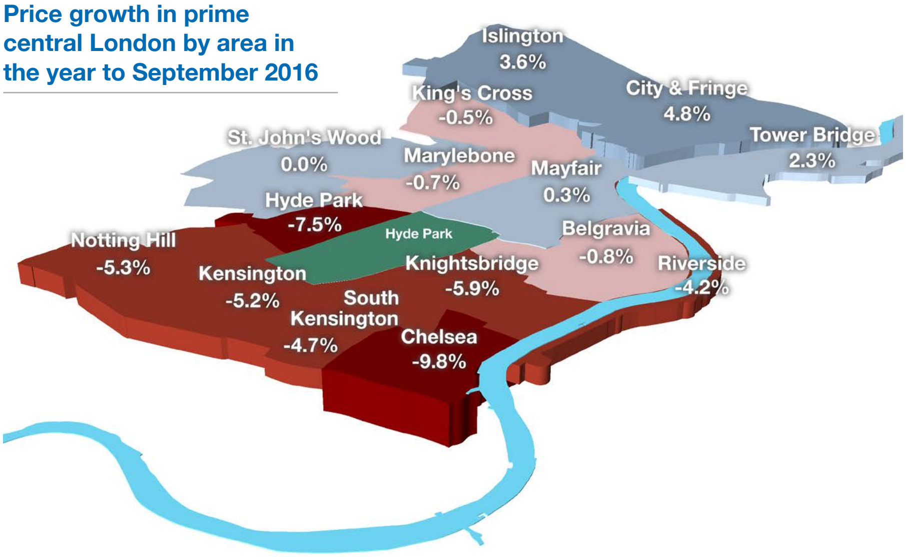


FIGURE 4
Price growth by price band and property type

Prime Central London Index **6,285.6**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.3%	-0.9%	-0.3%	-0.2%	-0.3%	-0.5%	-0.2%
3 months	-1.1%	-1.7%	-1.2%	-1.2%	-1.0%	-1.4%	-1.1%
6 months	-0.7%	-1.9%	-1.5%	-2.1%	-1.2%	-1.8%	-1.3%
1 year	0.9%	-1.4%	-2.4%	-3.5%	-2.8%	-2.6%	-2.0%
YTD	0.9%	-1.1%	-1.6%	-2.9%	-2.3%	-1.9%	-1.6%

LONDON AS A FINANCIAL SERVICES HUB AFTER BREXIT

Since the UK voted to leave the European Union in June, a key area of focus has been London's financial services industry.

For all the speculation surrounding a 'hard Brexit' and the prospect of banks seeking office space in other European cities, two assumptions are emerging.

First, London's significance as a global financial centre and its relationship with the EU mean there is mutual interest in minimising any economic damage.

Second, there may be a degree of fragmentation in the short-term, but London will continue to dominate its time zone.

The latest Z/Yen Global Financial Centres report in September raises the prospect of fragmentation, but the report's author Mark Yeandle believes there is no viable rival to London in Europe. The report, which was largely compiled before the referendum, ranks global financial centres according to a range of criteria and London held first place.

He told Knight Frank: "Little bits and pieces may move to Europe and cities like Dublin and Frankfurt may benefit but London dwarfs everywhere else to the extent that nowhere can replace it. Remember it has more financial services workers than the whole population of Frankfurt.

"London has so many strengths, including its currency, time zone, human capital, sensible labour laws and good regulation. All the attributes that made it such a successful city in the first place remain in place."

"It is also worth remembering that a lot of the business done in Switzerland, which is outside the EU, comes via London, so that's something I can't see changing."

Yeandle believes the fact some Asian markets would gain most in the event of an economically unfavourable deal will also help ensure a mutually beneficial deal is done between the UK and EU.

"I believe markets like Shanghai stand to benefit more than New York but that still brings you back to the fact that London is the only market of a sufficient critical mass in its time zone."

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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