RESIDENTIAL RESEARCH

PRIME CENTRAL LONDON SALES INDEX

The prime central London sales index 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.

AREAS OF PRIME CENTRAL LONDON RETURN TO POSITIVE GROWTH

Average prices were 0.7% down in the year to December after bottoming out at the start of 2017, says Tom Bill

December 2017

Sales volumes increased 5% in the six months to November

Average prices fell 0.7% in the year to December

Between £5 million and £10 million average prices rose 1.9% in the year to December

40% of sub-£2 million properties underwent a price reduction in the year to November, versus 29% above £5 million

Macroview: The political backdrop

The prime central London sales market continued its move towards recovery mode in December.

While average prices fell 0.7% on an annual basis, this was the most modest rate of decline recorded since June 2016. The broadly flat result provides further evidence that the price declines of up to 7% recorded in the middle of last year are bottoming out.

Indeed, an analysis of pricing on a more local basis across prime central London shows that the number of areas that recorded a rise in prices during the month continued to grow in December, as figure 2 shows. The number was at its highest monthly level since May 2016.

However, there is still no consistent pattern across different price bands.

For example, average prices rose 1.9% in the year to December for homes valued at between £5 million and £10 million, compared to a fall of 1.2% for properties priced at between £1 million and £2 million.

Higher rates of stamp duty had a more immediate and marked impact at the higher level of the market last year - which led to a quicker response in asking price adjustments and a more rapid recovery this year.

While pricing of £1m - £2m homes seemed more resilient in late 2016, there is evidence that prices have instead been adjusting this year.

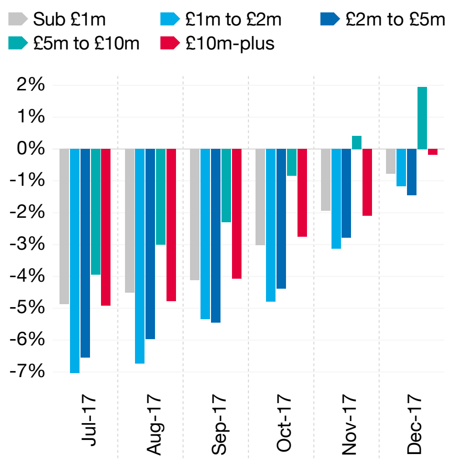
Asking price data underlines this trend, showing that reductions in asking prices have been more prevalent below £2 million in 2017. Some 40% of sub-£2 million properties in prime central London underwent an asking price reduction in the year to November 2017, according to data from Rightmove. This compares to some 29% of £5 million-plus properties undergoing a price reduction over the same period.

Activity also continued to rise modestly in December. There was a 5% like-for-like increase in sales volumes in the six months to November 2017, LonRes data shows. While we don't expect sales volumes to improve in a meaningful way until the market adjusts fully to higher transaction costs, we explore how the current political backdrop may influence behaviour in the Macroview section on page 2.

FIGURE 1

Higher value property prices outperform

Annual growth by price band in the second half of 2017

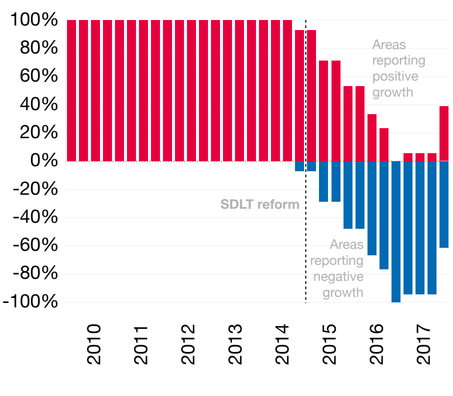


Source: Knight Frank Research

FIGURE 2

More markets return to positive growth

Markets reporting price growth vs price declines



Source: Knight Frank Research / LonRes

TOM BILL
Head of London Residential Research

"The broadly flat result provides further evidence that the falls of up to 7% recorded in the middle of last year are bottoming out."

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MACROVIEW | THE POLITICAL BACKDROP

News of a breakthrough in Brexit negotiations in early December meant that political uncertainty in the UK receded to some extent.

David Davis, the Secretary of State for Exiting the European Union, said the odds of the UK leaving the EU with no deal had "dropped dramatically".

Political uncertainty has not been the primary reason for the relative slowdown in sales volumes and price declines in prime central London

Tax changes have been the fundamental cause of pricing tension between buyers and sellers.

However, the political backdrop has altered the more intangible dynamic of sentiment. This, in turn, has prolonged the period over which asking prices have adjusted to higher transaction costs. Two general elections and a referendum since 2015 mean political uncertainty has played an important role.

While there would be a material impact on prime central London property markets in the event of a large-scale exodus of financial services workers from London, there are few indications this would happen.

Instead, as a greater sense of pragmatism appears to take hold in Brexit talks, it is the stability of the UK government rather than the contents of the deal that would arguably have a greater impact.

In the week following the breakthrough deal on 8 December, came a government Parliamentary defeat over the extent to which MPs will have a final say on the shape of the deal, reopening questions about how able the government will be to implement its version of Brexit.

However, it is worth noting that a version of Brexit that has the backing of a majority in Parliament may lead to a more consensual outcome that is less subject to challenge.

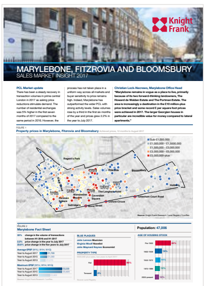
The indirect role played by politics perhaps explains the limited anecdotal evidence that the 8 December deal bolstered demand. Given the extended nature of Brexit talks, asking price reductions are likely to remain the key prerequisite for increasing market liquidity in 2018.

FIGURE 3
Price growth by price band, time period and property type

Prime Central London Index **5,941.8**

	up to £1m	£1m to £2m	£2m to £5m	£5m to £10m	over £10m	Flat	House
1 month	-0.1%	-0.1%	-0.2%	0.0%	0.0%	-0.2%	0.0%
3 months	-0.1%	-0.2%	-0.2%	0.3%	0.1%	-0.2%	0.1%
6 months	-1.0%	-0.7%	-0.6%	0.9%	0.5%	-0.7%	0.2%
1 year	-0.8%	-1.2%	-1.5%	1.9%	-0.2%	-1.1%	0.2%
YTD	-0.8%	-1.2%	-1.5%	1.9%	-0.2%	-1.1%	0.2%

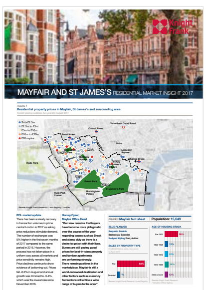

Prime Central London Lettings Index December 2017


Marylebone market insight 2017


Belgravia market insight 2017


London Review Autumn 2017


Victoria and Westminster Market insight 2017


Mayfair market insight 2017


Residential Market Update


Prime Country House Index

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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