

*The impact of Brexit
on the sales market*

*Lettings activity
surges*

*Finance costs remain
ultra-low*



London Residential Review

Q4 2019

knightfrank.com/research



PRIME LONDON SALES MARKET INSIGHT

Brexit has affected sentiment in prime London markets but other forces are driving demand, as Tom Bill explains

Political uncertainty continued to dominate sentiment in prime London residential markets in final months of 2019.

By mid-October, there were signs the EU and the UK were moving closer to signing a withdrawal agreement.

However, irrespective of the political backdrop, transaction activity has been on an upwards trajectory in PCL.

Knight Frank carried out 11% more transactions in prime central London between January and September compared to last year. In prime outer London, transaction volumes were broadly flat compared to last year, as figure 2 shows.

The trend is due to a combination of factors that include the stamp duty-related price adjustments and the Sterling discount, which have had a more pronounced effect in PCL. Meanwhile, activity is also being driven by a prolonged build-up of demand and the ultra-low cost of debt.

Prices have now declined by an average of 14% over the last four years in PCL, which more than compensates for higher rates of stamp duty. When combined with the effects of a weaker Sterling, overall discounts of more than 25% are available for buyers denominated in a range of overseas currencies compared to June 2016.

The ratio of new prospective buyers to new property listings was 14 in September in prime central and prime outer London, the highest level in more than ten years, indicating the strength of pent-up demand. Meanwhile, the total available potential spend of all prospective buyers of existing homes registered with Knight Frank in London rose to £55 billion in Q3 2019.

At the same time, the number of new listings above £1 million in PCL declined 28% in the year to September, as more vendors hesitated due to Brexit-related uncertainty. This imbalance between supply and demand means the rate of price declines has moderated, as figure 1 shows.

Average prices for existing homes in PCL fell 3.9% in the year to September 2019, the smallest decline in 12 months. The 3.5% decline in prime outer London was the most modest decline since May 2018.

London has also reinforced its position as the leading global investment hub, extending its lead as the largest global centre for currency trading, according to the Bank for International Settlements, underlining its long-term credentials as a dominant global finance hub, irrespective of short-term political turbulence.

NOTED

11%

The increase in transactions carried out by Knight Frank in PCL between January and September

25%

The approximate discount available in PCL for buyers denominated in a range of overseas currencies since June 2016

£55 billion

The accumulated available potential spend of all prospective buyers registered with Knight Frank in London in Q3 2019

-3.9%

The decline in average price in PCL in the year to September, the most modest fall in a year

"Irrespective of the political backdrop, transaction activity has been on an upwards trajectory"

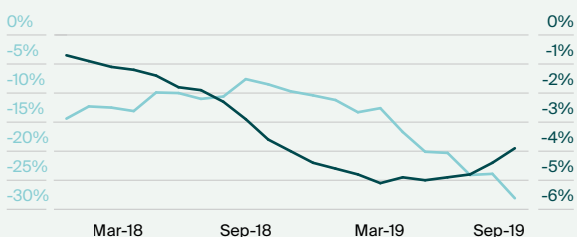
TOM BILL

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1 Price declines moderate as supply falls

Annualised % change in listings

■ New £1 million-plus listings in PCL
■ Annual price change in PCL (whole market)

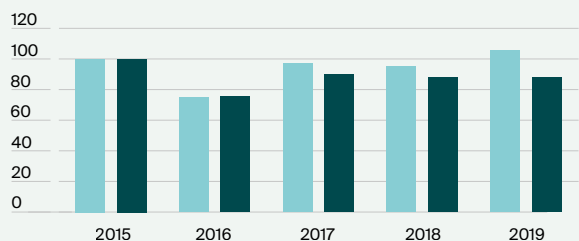


Source: Knight Frank Research / Rightmove

2 Sales activity on an upwards trajectory in PCL

Transactions between January and September, per Knight Frank office, rebased to 100 in January 2015

■ PCL ■ POL

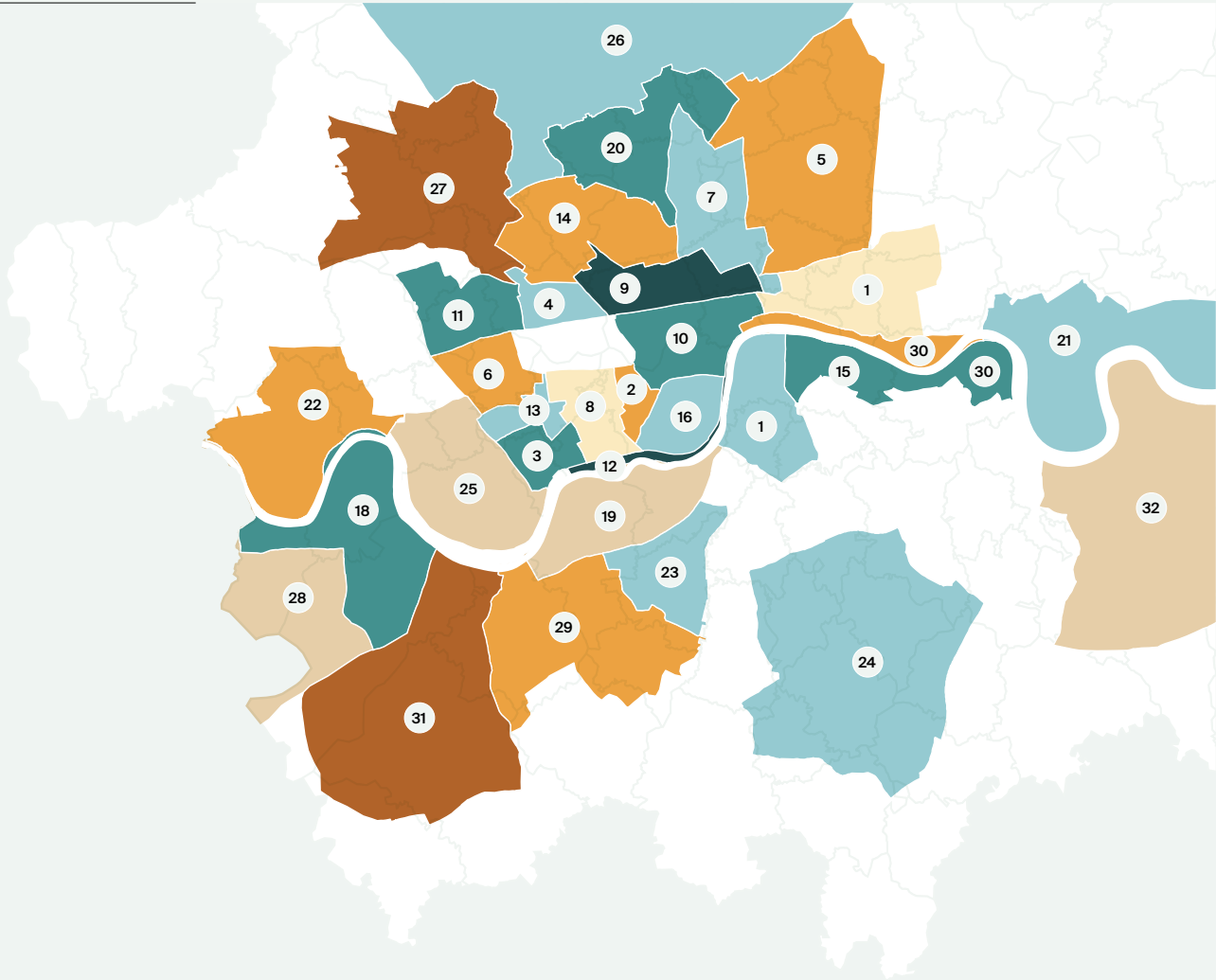
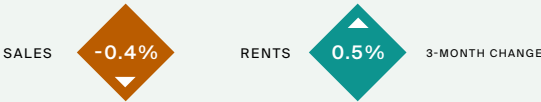


Source: Knight Frank Research

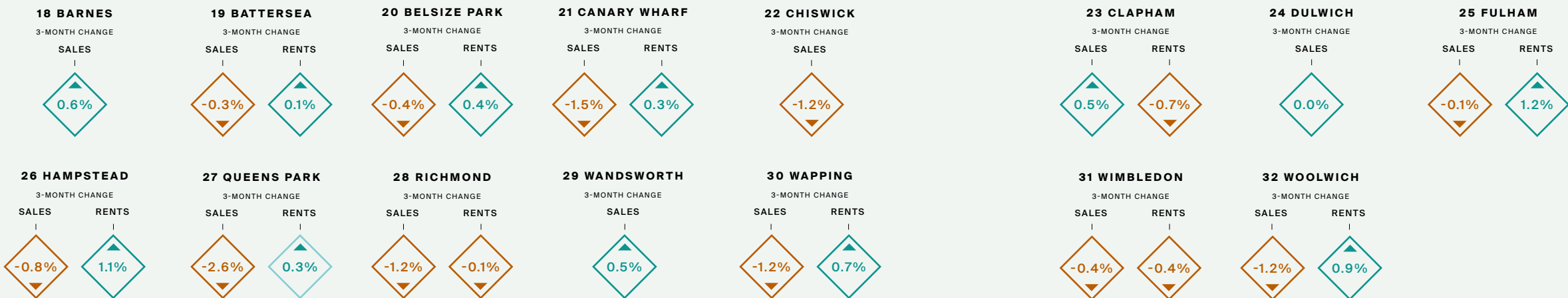
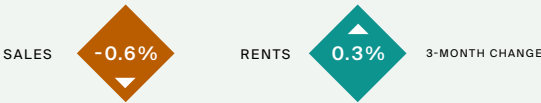
PRIME LONDON PRICE AND RENTAL GROWTH, SEPTEMBER 2019



PRIME CENTRAL LONDON



PRIME OUTER LONDON



PRIME LONDON LETTINGS MARKET INSIGHT

Demand is surging in prime London rental markets, particularly in the lowest and highest price brackets, as Tom Bill explains

The lettings market in prime London has continued to strengthen in response to the backdrop of political uncertainty in 2019.

The number of tenancies agreed by Knight Frank in London increased by 39% in the year to September on a per office basis, which was the highest such rise in more than ten years.

Irrespective of the large build-up of demand in the sales market, political uncertainty generated by Brexit has prompted more people to rent. The tenant fee ban, which was introduced in June, has further driven demand by reducing upfront costs.

The number of new prospective tenants who registered in the year to September 2019 increased by 29% compared to the previous 12-month period, which was also the highest such rise in more than ten years.

Meanwhile, the number of tenancies agreed below £1,000 per week in PCL increased by 42% in the year to September, the largest rise of any price-bracket.

However, there are differing levels of performance in different price brackets.

For example, average rental values between £250 and £500 per week in PCL increased by 3% in the year

to September. This compared to an average decline of 0.1% across all price brackets.

Between £1,000 and £1,500 per week in PCL, average rental values declined 1.7% in the year to September and between £1,500 and £2,000 the drop was 2.2%. This relatively weaker performance is related to the fact that demand still remains more subdued among the senior executives who are typically more active between £1,000 and £5,000 per week.

Meanwhile, the number of tenancies agreed above £5,000 per week rose by 20% to 146 in the year to September, whole market data from LonRes shows, indicating how demand in the highest price brackets has strengthened in response to political uncertainty.

Average rental values have been broadly flat over the last 18 months in PCL. As figure 3 shows, they have strengthened moderately in the last four months in response to lower levels of stock as more property owners looked to take advantage of a relatively stronger sales market. This trend will continue and maintain upwards pressure on rental values should political uncertainty begin to lift.

NOTED

39%

The increase in the number of tenancies agreed by Knight Frank in the year to September

29%

The increase in the number of new prospective tenants registering in the year to September

3%

The annual increase in average rental values between £250 and £500, compared to a 0.1% decline across all price brackets

-2.2%

The decline in average rental values in PCL in the year to September 2019 between £1,500 and £2,000 per week, highlighting the differing performance by price band

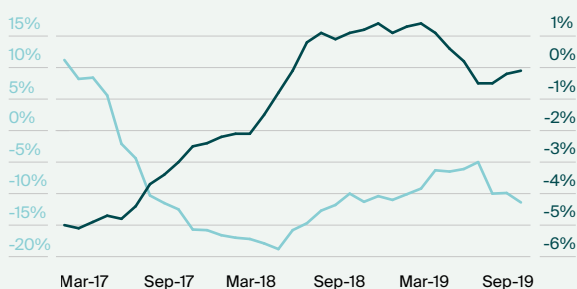
"The political uncertainty generated by Brexit has prompted more people to rent"

TOM BILL

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3 Rental values strengthen as supply falls

■ New rental listings in PCL (annualised % change)
■ Annual change in average PCL rental values

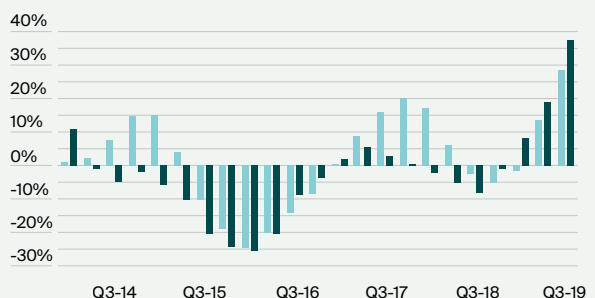


Source: Knight Frank Research

4 Demand and activity surges

Annualised % change, per Knight Frank office

■ New prospective tenants ■ Tenancies agreed



Source: Knight Frank Research

PRIME LONDON IN NUMBERS

2

Overseas students will now have two years to find a job in the UK after they graduate, an increase from four months. Student lets accounted for 21% of all London tenancies agreed by Knight Frank in the 12 months to August 2019, up from 17% over the previous year. "International students are already a significant part of the market," said Gary Hall, acting head of lettings at Knight Frank. "This change will only help to strengthen that further."

1.6%

Five-year fixed-rate mortgage deals have fallen below 1.6% for a maximum 60% loan-to-value ratio. Average prices for fixed-rate mortgages have declined due to UK political uncertainty and global trade tensions. "We have often thought that rates can't go any lower, but here we are again," said David Hall of Knight Frank Finance. "Tighter regulations mean the main criteria lenders can compete on is price so it becomes a very competitive market, which is something borrowers need to be acutely aware of."

153

The number of super-prime (£5,000+ per week) tenancies agreed in the year to September 2019. "People are watching and waiting for the political situation to play out and some have decided to rent," said Tom Smith, head of super-prime lettings at Knight Frank. "People tell me they want to remain flexible, not just because of Brexit but because of their concerns around global trade tensions and the state of the world economy."

Please get in touch with us

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.



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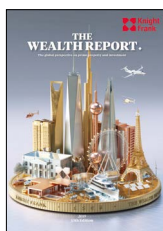


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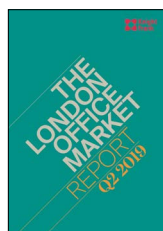
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Prime London Sales Index
September 2019



The London Office Market
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Residential Investment
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