RESEARCH

London real estate continues fall amid impending EU referendum

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Avenue Road London home

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London real estate growth has fallen more than half a percentage point over the past six months for the biggest decline since June 2009, according to a new report by Knight Frank.

Prices fell by 0.1 percent in February compared to the previous month, and growth was slowest in neighborhoods with more expensive property, such as Westminster and the Royal Borough of Kensington and Chelsea. Like everywhere else, market volatility has potential buyers on edge, and the impending European Union referendum further complicates the market.

"Rising economic uncertainty due to the unknown implications of the upcoming EU vote is the key issue," said Liam Bailey, head of residential research at Knight Frank. "This lack of clarity could lead to fewer residential transactions and could even weigh on development volumes."

London calling

Prime central London markets such as the Westminster and Kensington and Chelsea boroughs have fallen by 0.8 percent over the last year, with asking prices falling by 5-10 percent. However, demand for best-in-class properties remains high, and eastern markets have performed well.

The drops continue a trend dating back to last year, when 12-month percentage changes were around 4 percent. With each successive month, however, rates fell, eventually dropping below 1 percent.

Lyall Street London estate on sale via Sotheby's

Every month since November, six-month, quarterly and monthly percentage changes have been negative. Overall, annual growth rates have been trending down since late 2011's high of almost 12 percent, with an accelerated decrease since the third quarter of 2015 as buyers have adopted a wait-and-see approach in response to negative headlines in business papers and political strife.

In addition to volatility in the global market and stock indices, confidence in central banks has also dropped. Although negative interest rates are not yet and may not become a reality, the prospect of them indicates the system's general impotence and has lowered the share price of European banks.

Inexpensive shares compound lowering oil prices and China's ongoing transition to a consumer-based economy, which has led to slowed growth, and further stifle the economy. Moreover, London has an impending Mayoral election in May and the UK will vote the next month on a referendum determining whether the country will remain within or leave the European Union.

Knight Frank predicts a "Brexit effect" regardless of the outcome of the referendum. Faced with uncertainty, investors will delay business, including real estate purchases, until after the vote.

Westminster, London property

Although cautioning against anyone claiming certainty, Knight Frank cites Toscafund chief economist Savvas Savouri as saying that the degree of isolation an exit would entail is unknown, but that economic uncertainty would likely keep interest rates low for longer.

An exit could also strengthen trade ties between London and China, as Frankfurt and New York are less likely and less established trading partners. However, Mr. Savouri predicts the UK will not exit, as "old fashioned human nature opts for continuity over uncertainty."

Waning worldwide
Recent economic woes have had a negative impact on the real estate of other major cities as well.

Falling real estate prices in the United Arab Emirates' city of Dubai may continue through 2016 and into 2017, according to a new report by Core Savills.

"Market In Minutes: Dubai Residential Market" notes that lower oil prices and a large supply have organically lowered prices, but expectations of falling rates have served as a self-fulfilling prophecy and compounded the drops. After years of economic growth following the end of the great recession, Dubai is experiencing a market slowdown as global regions show signs of volatility (see story).

Similarly, in New York price growth is slowing and homes are staying on the market for longer, according to a new report from StreetEasy.

The price growth in both New York's Manhattan and Brooklyn boroughs has been slowing since December 2012 and July 2015, respectively, with days on market also reaching recent highs. With the dollar strong against other currencies, foreigners are less likely to purchase property as an investment, thus hurting demand (see story).

However, despite global trends, there is reason to be optimistic for London's housing market.

"The mainstream UK housing market is primarily driven by domestic dynamics," Mr. Bailey said. "An exit from the EU would not affect the demand/supply imbalance which is a key feature underpinning current housing market trends.

"This imbalance is most noticeable in London and the South-East, where decades of undersupply contribute to the on-going need for a considerable uptick in construction activity," he said.