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Summary

On the list of cities with most expensive housing, London is quite high up. However, the city has a history of rising prices and an expected bubble that never exploded. During the past ten years, the housing market has experienced the most disrupted property cycle on record. In the midst of Brexit uncertainty, house prices in London dropped for a short bit after only to recover a few months later.

The house price growth has decreased and the number of houses sold in London has plunged. The housing market in London is more sensitive to the Brexit Saga than the English housing market.

1. Introduction

Uncertainty and fear after UK voted to leave the EU have stagnated house prices across the United Kingdom. The majority of news articles in the UK is concentrated around Brexit and the market sensitivity to the political clutter is now higher than ever.

Back in early 2016, England's housing market flourished, when the average house price was £220,361, or approximately 9% higher than early 2015 and 0.1% higher than late 2015.

In June the UK voted to leave the EU and in July 2016 the annual and the monthly house price growth started its descent. Since then, the number of transactions fell as annual price growth slowed to less than 1%. Fears over Brexit caused English house prices to all but stagnate in 2018, rising by the smallest amount in almost six years.

	2015	2016	2017	2018
Average Annual House Price Growth	6.9%	7.6%	4.7%	3.4%
Average Monthly House Price Growth	0.6%	0.3%	0.5%	0.3%

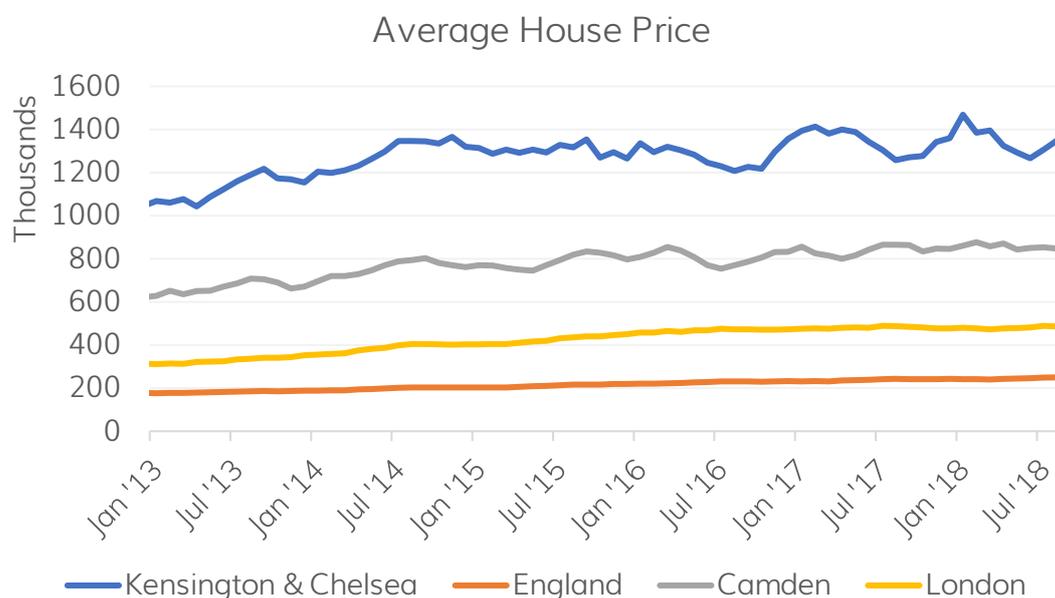
According to the Financial Times, the Bank of England has claimed that London house price drop is unlikely to create a Domino effect on the rest of the country. Brexit related uncertainty is higher in the capital than it is in the rest of the country, causing a sharper drop.

With Brexit, net migration from EU is expected to fall which in turn pushes demand for houses down which pull prices further down. Other related reasons to the slowdown of price growth are related to rising interest rates and the disproportionately increase in the rate of stamp duty, which makes buy-to-let investments less attractive.

However, what about house prices within London? Have all areas within London experienced the same price change? How do these compare with the rest of England?

2. Data and Insights

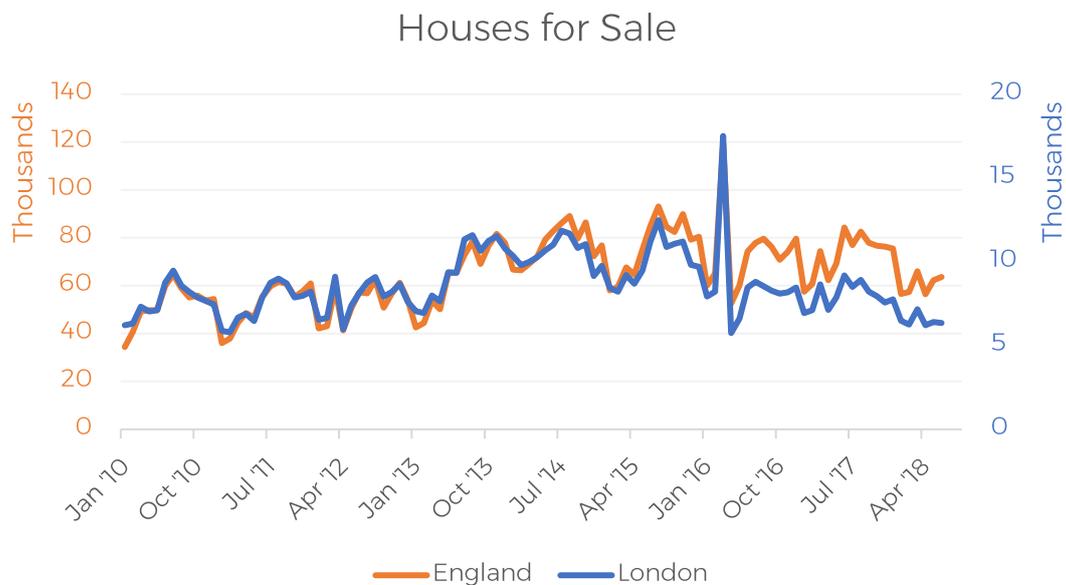
The figure below shows the average monthly price volatility of house prices in England, London and two neighborhoods of London, namely: Camden and Kensington & Chelsea.



In general, the UK housing prices have not been as volatile as those of London's boroughs. In Kensington & Chelsea, right before the vote the average house prices went up to an all time high at the time. In July 2016, Brexit played a role as house prices went down and so did the demand the coming months.

If on average an average house in Camden becomes almost £3000 more expensive each month, after Brexit this monthly increase went down to £2500. The story of Kensington & Chelsea is even more dramatic. An average house increases with £4500 and this increase went down to £2000.

What about the number of houses being bought?



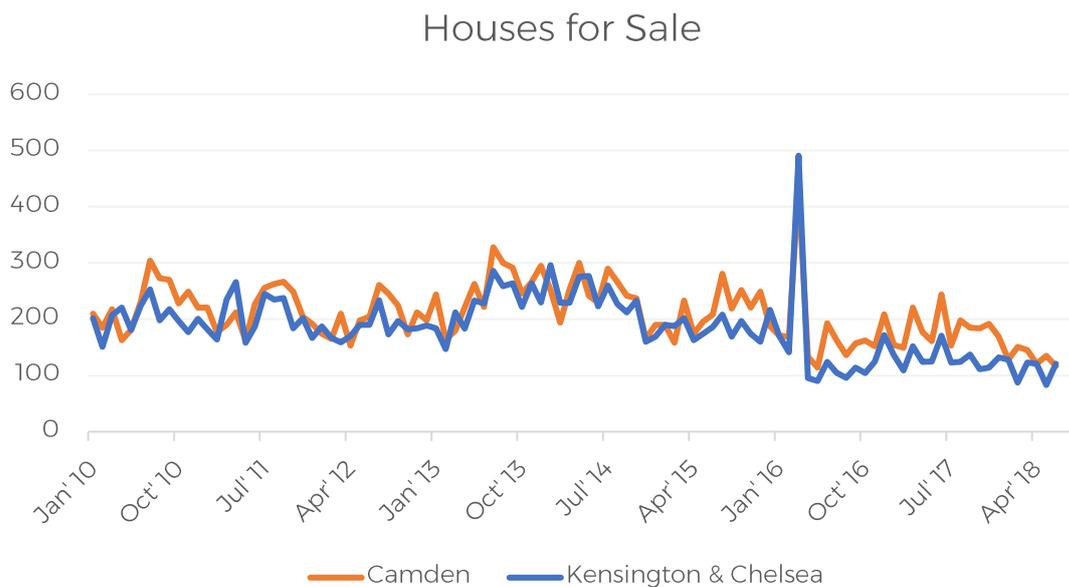
On the left hand-side the axis, the number of houses sold in England is shown, while London is on the right side. The remarking insight from the figure above is the almost hand-to-hand movement of houses sold in the England with those in London. The movements of the two correlate highly along time ($r=0.9$).

The figure above illustrates a sudden increase in the house prices of both London and UK in the beginning of 2016 which can explain the market flourishing during this period. This could have been driven also by uncertainty on what would happen after the vote which triggered fast buying. And then Brexit happened, and number of houses sold dropped for both London and England.

What confirms the predicted dynamics from the Bank of England, is the part after: London is showing a substantial decrease in the number of houses sold and so is England, but the drop in London was much harsher.

On the 15th of January 2019, House of Commons voted down the Brexit deal proposed from the government and uncertainty over the economic outlook will appear to be more dominant in London than it is in England.

More specifically within some areas of London, namely Camden and Kensington & Chelsea, the number of houses sold has gone down since June 2016 and if it keeps with the same trend, potential home buyers will not be lucky.



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