

JUSTIN MASON
VALUATION • CONSULTANCY

PRIME CENTRAL LONDON UPDATE

AUGUST 2021



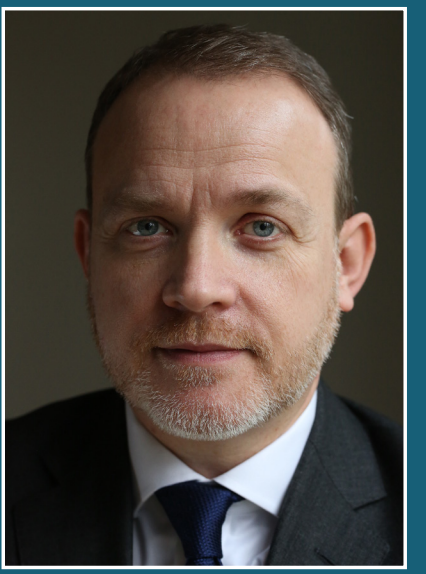
CANAL STREET RESEARCH

KEY HIGHLIGHTS

- Prime Central London* transactions hit their highest level since 2014 in Q2, with 190 recorded by LonRes**. This compares to a final figure of 165 in Q1 and is a very large increase on the 81 sales in Q2 2020, when the market was effectively closed for much of the period due to the first lockdown.
- Over the past year, 667 sales were recorded in this market, again a figure unmatched for over six years. This is about 30% above the 2016 to 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Although activity is stronger, average values in PCL have remained relatively flat through 2021 so far, according to both the opinion-based indices and the completions-based data.
- The average discount to asking price fell significantly in Q2 for the £3-15m house market, with apartments also seeing a small reduction in discounting. Given values are flat, this suggests vendors are being more realistic with asking prices.
- The consensus among forecasters is that the potential for price growth in PCL is there, but the full return of international demand is required to unlock it. At present, this view results in expectations of slight price growth this year and stronger performance next year, but clearly these are subject to revision if the projected path of the Pandemic or economic recovery change significantly.

*PCL in this report refers to £3m+ sales in the following areas unless otherwise stated: SW1(A, W, X, Y), SW3, SW7, SW10, SW5, W14, W11, W8, W2, W9, NW1, NW8, W1(C, G, H, J, K, S, U).
** LonRes is a well publicised data source for property professionals working in London

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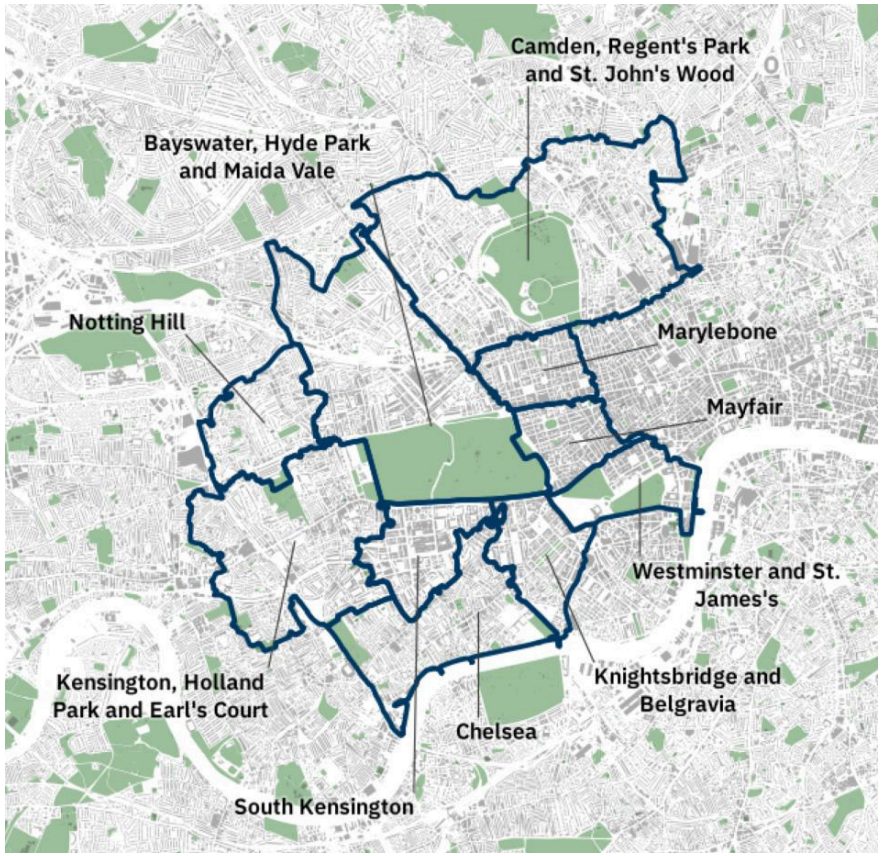


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MARKET BACKGROUND



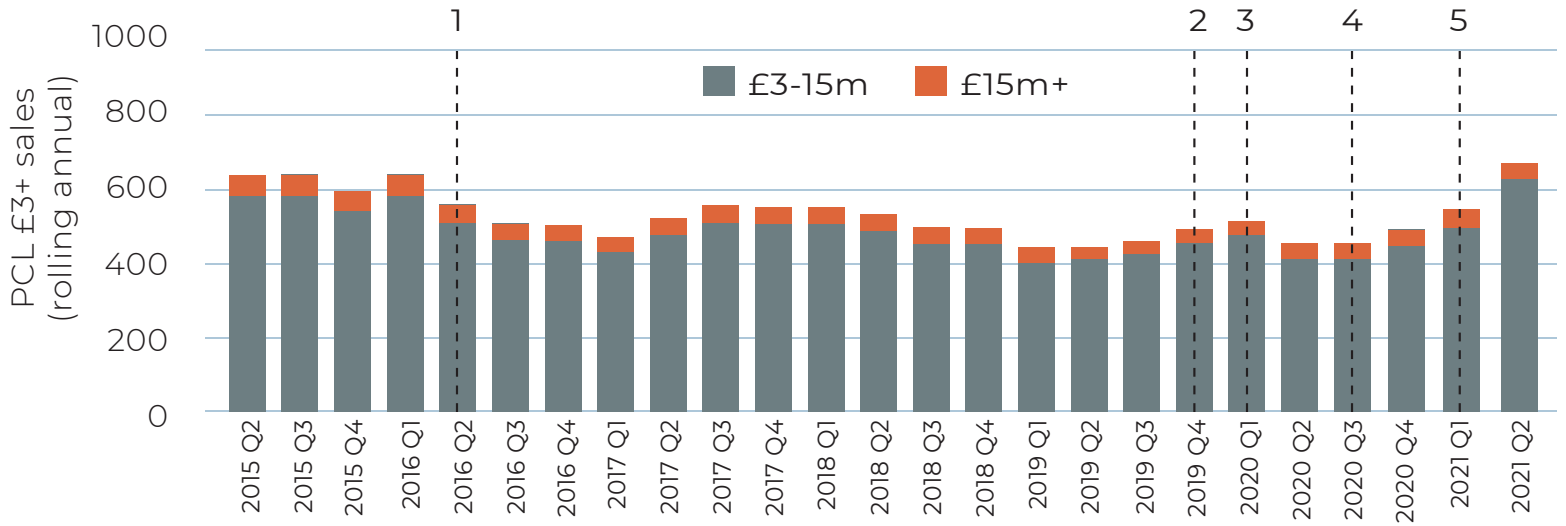
Source: OS OpenData

Area	Transactions (12m to Mar-21)	Compared to last Q (2020 total)
England	696,000	Up 30,000 (+4%)
London	78,000	Up 3,000 (+4%)
Camden, Westminster and RBKC	4,900	Down 250 (-5%)
PCL £3m+	530	No change

Source: Land Registry Price Paid Data (figures rounded)

- The £3m+ Prime Central London market makes up less than 1% of all transactions in London, and less than 0.1% nationally.
- At times it can behave very differently to the mainstream markets, because the drivers of activity are not the same.
- Smaller sales volumes – plus unique properties and a higher proportion of off-market deals – mean prices can be volatile.

TRANSACTION TRENDS



Source: LonRes

Q2 2016	Dec 2019	Mar 2020	July 2020	Q1 2021
1: 3% SDLT surcharge and Brexit referendum	2: UK General election - Johnson majority	3: First Covid-19 lockdown starts	4: Stamp Duty holiday	5: Third National Lockdown

- The £3m+ PCL market saw a strong recovery in activity in Q2. Sales on an annual basis reached 667 in the 12 months to June, based on LonRes data. Comparisons with very recent trends are difficult as the lockdown restrictions in Q2 2020 affected activity, but this is around 30% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.

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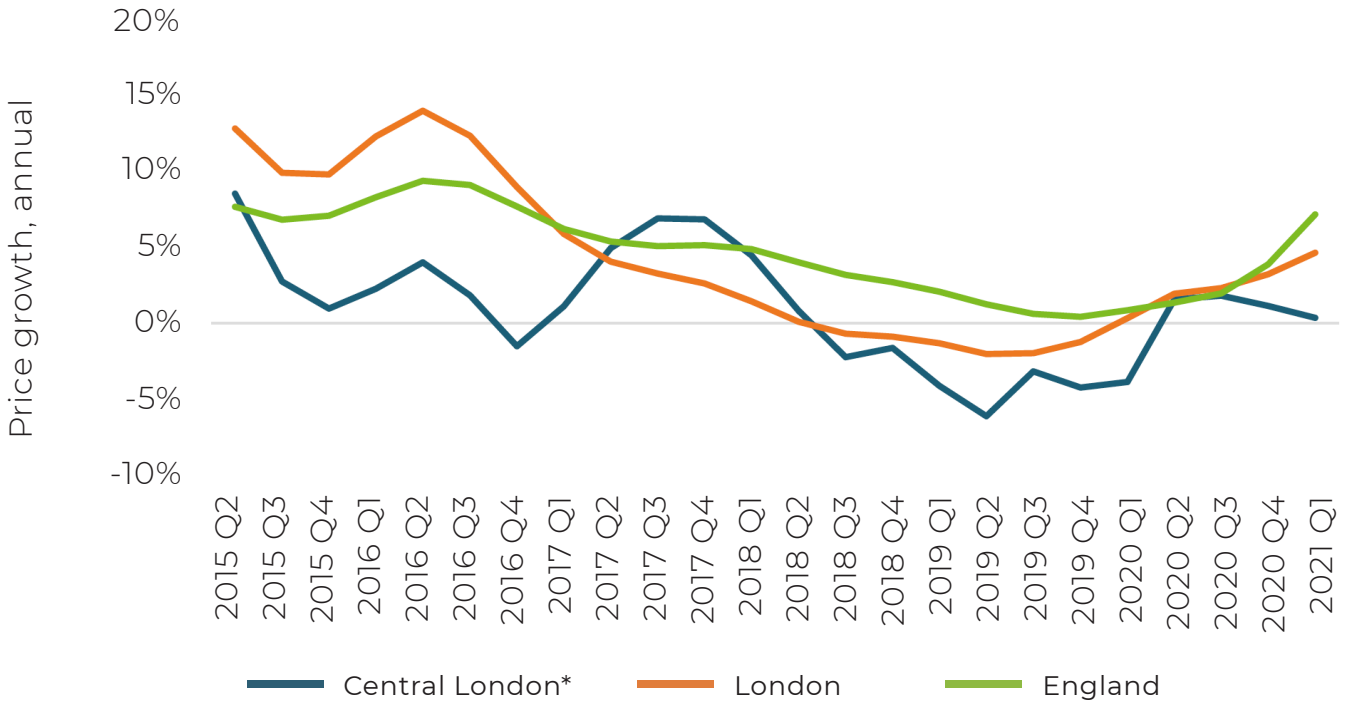
TRANSACTION TRENDS

- In Q2 alone there were 190 transactions, the highest individual quarter since 2014 and 15% above Q1 2021. This increased activity coincided with the SDLT holiday's maximum saving of £15,000 tapering down to £2,500 at the end of June. However, as neither of these figures offer meaningful savings on £3m+ transactions, it is likely that other factors are driving buyer behaviour. Indeed, similar trends have been seen in other high value global markets where levels of taxation remained constant.

- The plan to unlock the economy progressed mostly as planned, with the final step delayed by one month, but the vaccination programme continues. Of most importance to the PCL market, international visitor numbers remain very low, although the restrictions on travel may be set to be loosened over the rest of the year.

- Brexit continues to take a back seat to the Pandemic in terms of economic impact. Trade talks on the important issue of City of London access to EU markets have reportedly stalled.

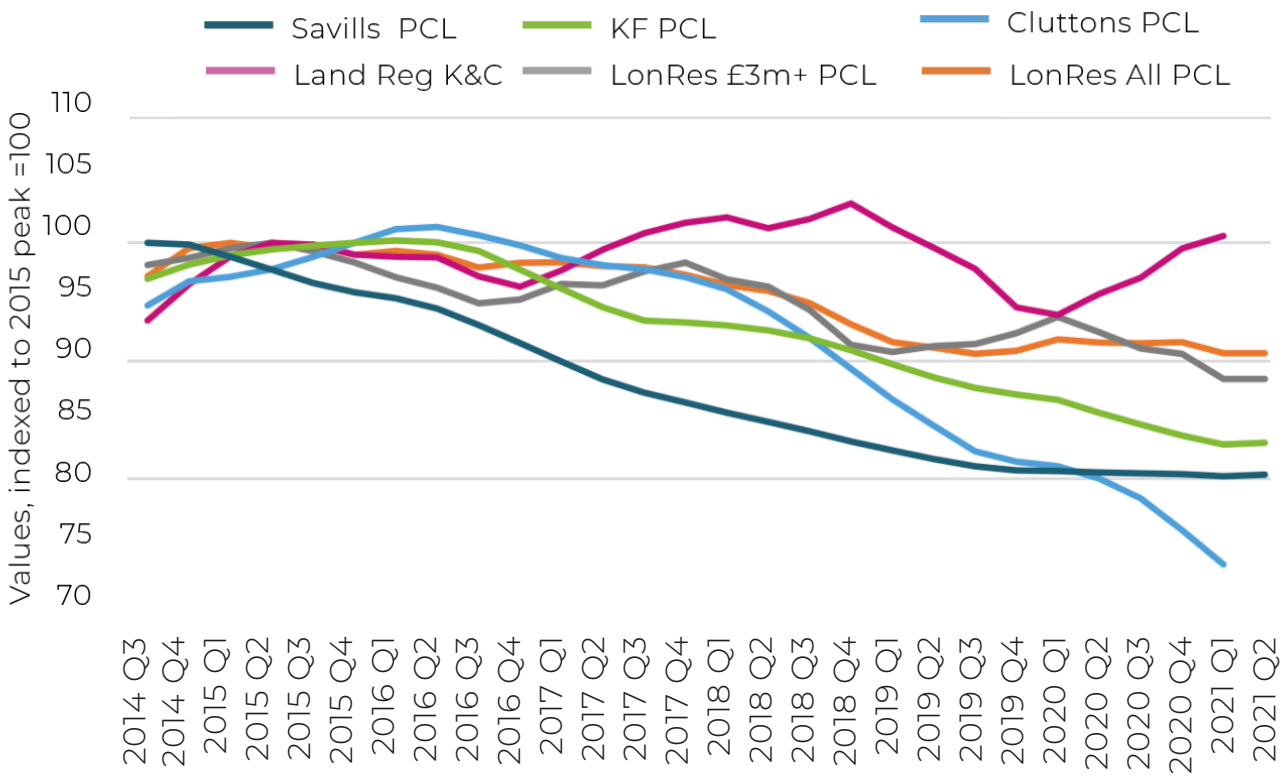
HOUSE PRICE HISTORY



Source: ONS UK HPI (data smoothed, 6 months).
**Note: Central London defined here as Westminster, RBKC and Camden average – a larger area with lower average values than the PCL area used in the rest of the report.*

- Mainstream house prices surged in the first half of 2021, with some indices suggesting double digit rises at national level.
- Average values in the Central London boroughs* were approximately flat in Q1, growing by only 0.3% according to the ONS index.
- Both regional (4.3%) and national (6.6%) average house price growth were significantly stronger over the same period.

ACHIEVED PRICES AND AGENTS' INDICES

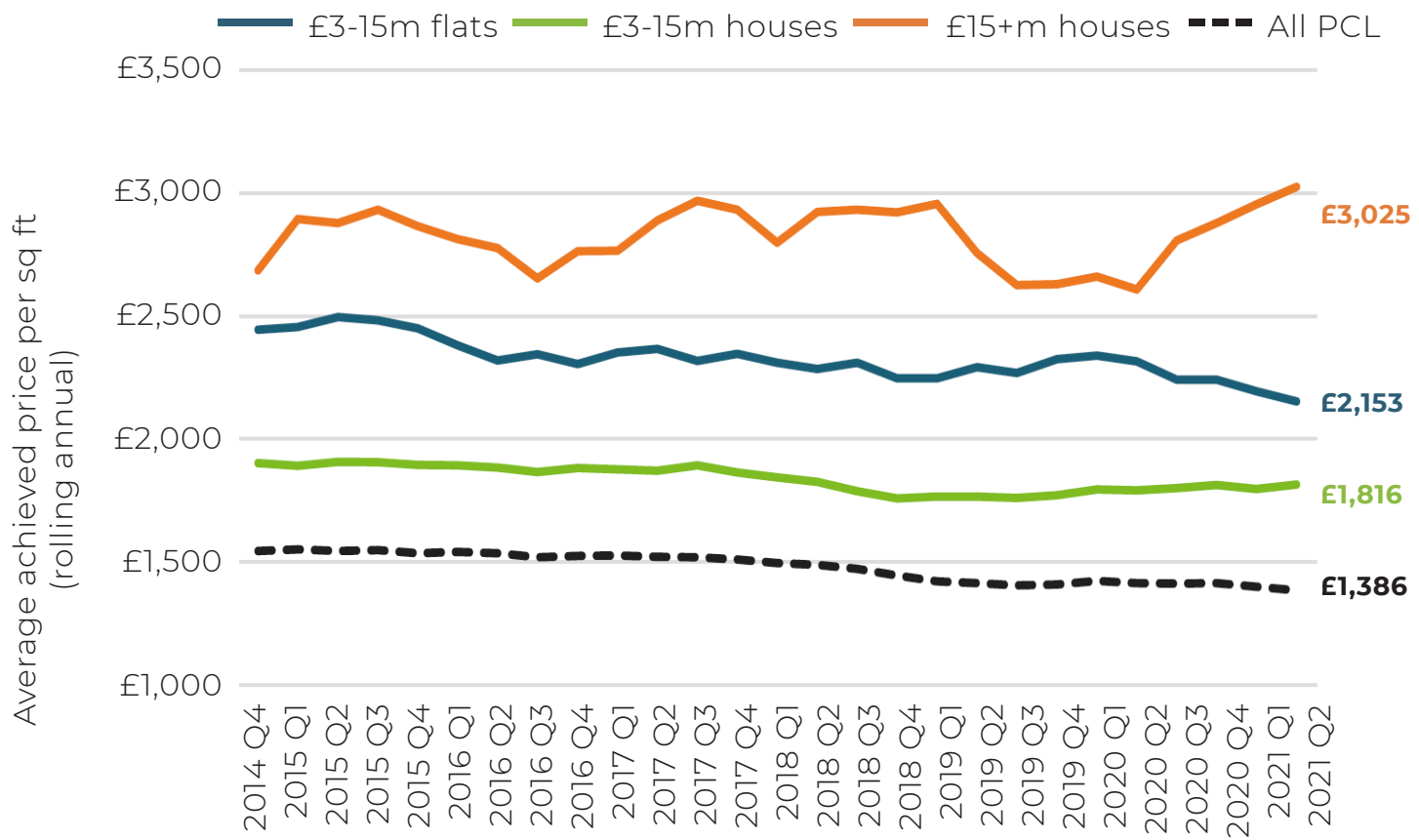


Source: Land Registry, Savills, Knight Frank, Cluttons, LonRes (All data smoothed, 12 months).

- This page looks at the opinion-based house price indices from central London agents.
- Also included on the chart for comparison is the Land Registry index for Kensington & Chelsea, based on completed sales, however this covers a different area and much wider range of values. This index showed slight growth in Q1, with Q2 results not yet available.
- Most agents' indices showed small rises quarter-on-quarter in the raw data, translating to values continuing to look flat in the smoothed data shown below. Below headline level there are clearer trends: in general, houses are outperforming apartments, and leafier locations with more family homes have been more resilient.
- The LonRes June Update reported that achieved prices in PCL in May were 3.3% lower than a year earlier. LonRes achieved £ per sq ft data is also included here for comparison, with Q2 showing no change compared to last quarter.

(Note: LonRes data is not an index, see next section)

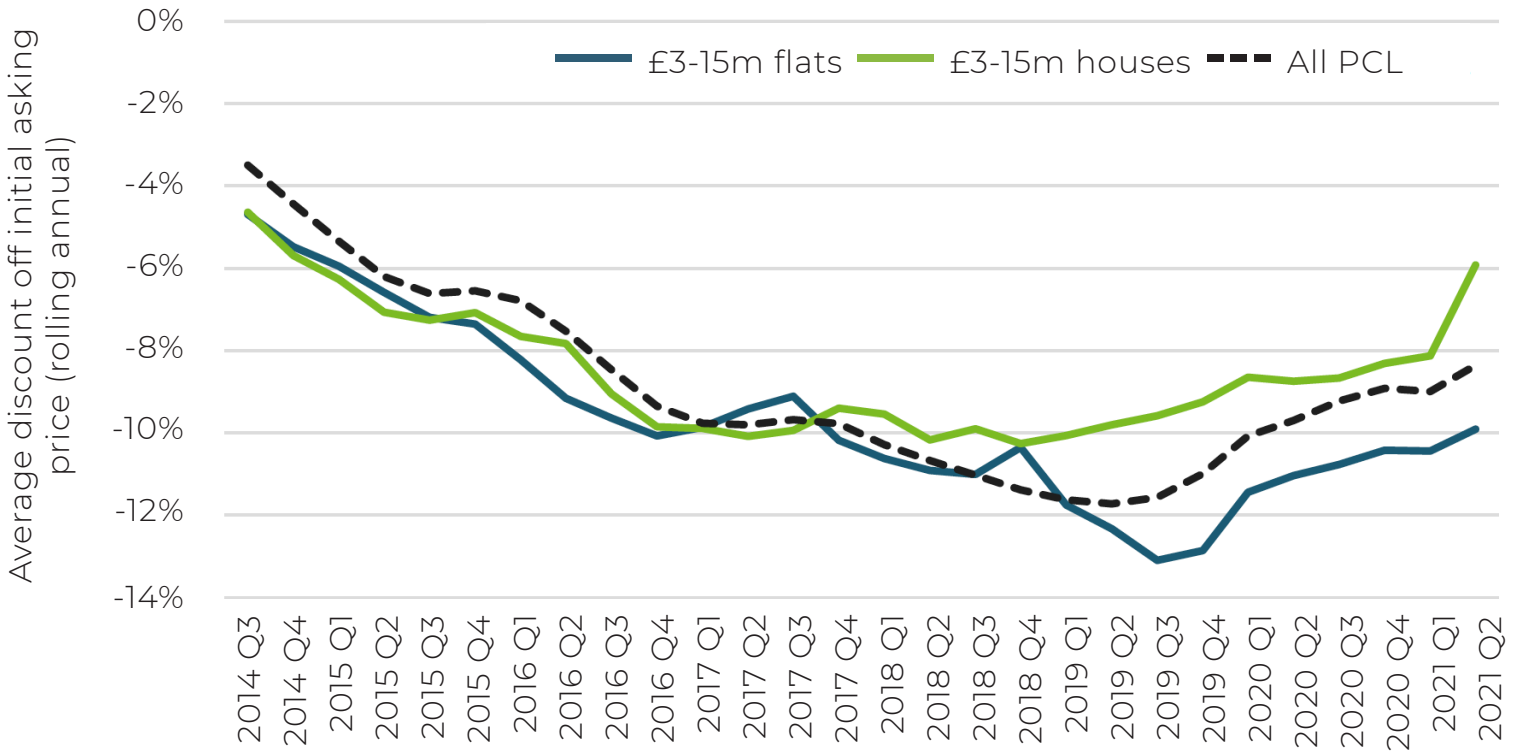
ACHIEVED £ PER SQ FT BY YEAR



Source: LonRes

- On an annual basis, achieved values for PCL overall fell slightly (£1,386 in Q2 2021 vs £1,415 in Q2 2020), but this masks differing trends across property types and price bands.
- The £3-15m house market saw little change in values, with a 1% increase. £3-15m flat values fell by 7% in Q2 compared to a year earlier. £15m+ houses saw a 16% annual increase in Q2, reaching their highest level since this data series began in 2013, but this is a smaller sample and is more volatile.
- Over the past five years, the changes in £ per sq ft values are as follows:
  - -7% for £3-15m flats
  - -4% for £3-15m houses
  - +9% for £15m+ houses
  - -10% for all PCL
- Note that these figures are simple averages rather than an index, but they indicate lower falls in the values of sales actually agreed compared to the opinion-based indices.

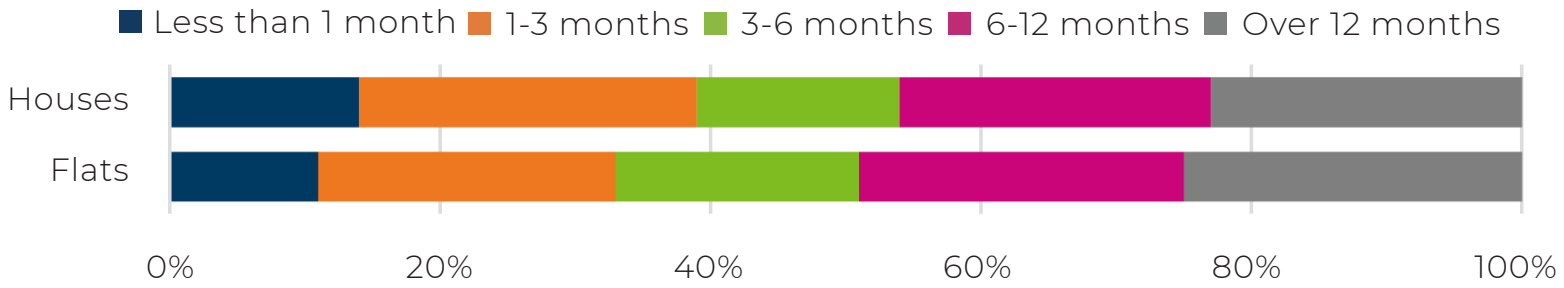
AVERAGE DISCOUNT TO ASKING PRICE



Note: £15m+ data very volatile so not included – volumes too low
Source: LonRes

- Average discounts across PCL fell in Q2, to 8.4%, continuing the trend of much of the past two years.
- In the £3-15m markets, the average discount for flats decreased slightly, but for houses there was a significant reduction, moving below 6% for the first time since 2014.
- The difference in average discounts between flats and houses in the £3-15m markets reached its highest level - 4 percentage points, since the start of this data series in 2013.

TIME ON THE MARKET



43.9%

Over 2 in 5 properties have been discounted

12.1%

Around 1 in 8 are currently under offer

+18.0%

Stock levels are higher than 1 year ago

- For current listings in PCL*, 49% have been on the market for over 6 months (46% for houses; 49% for flats).
- This data indicates an average time on the market of around 7.5 months for houses and 8 months for flats.
- Stock levels continued to grow on an annual basis, by 18%. The rate of growth has slowed compared to last quarter's 29%.

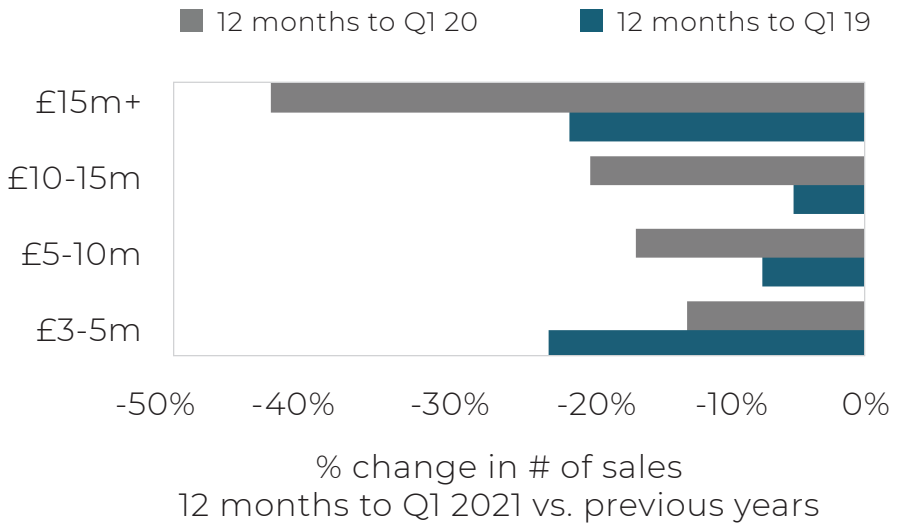
Source: LonRes, data for Q2 2021 only
**Time on market data relates to PCL properties of all values – not available by price band*

DEPTH OF MARKET

- The table shows £3m+ sales volumes by price band in the 12 months to Q1 2021, according to Land Registry completions data. A comparison to the trends in the two previous years is also shown in the chart.
- Relative to previous years, activity over the past 12 months is down in all price bands, with turnover in the super prime £15m+ markets performing least well, despite the past quarter.
- Note that the Land Registry data used in this analysis is subject to a delay that has increased over the past year, so any drops in activity may be overstated, with revisions in future releases likely.

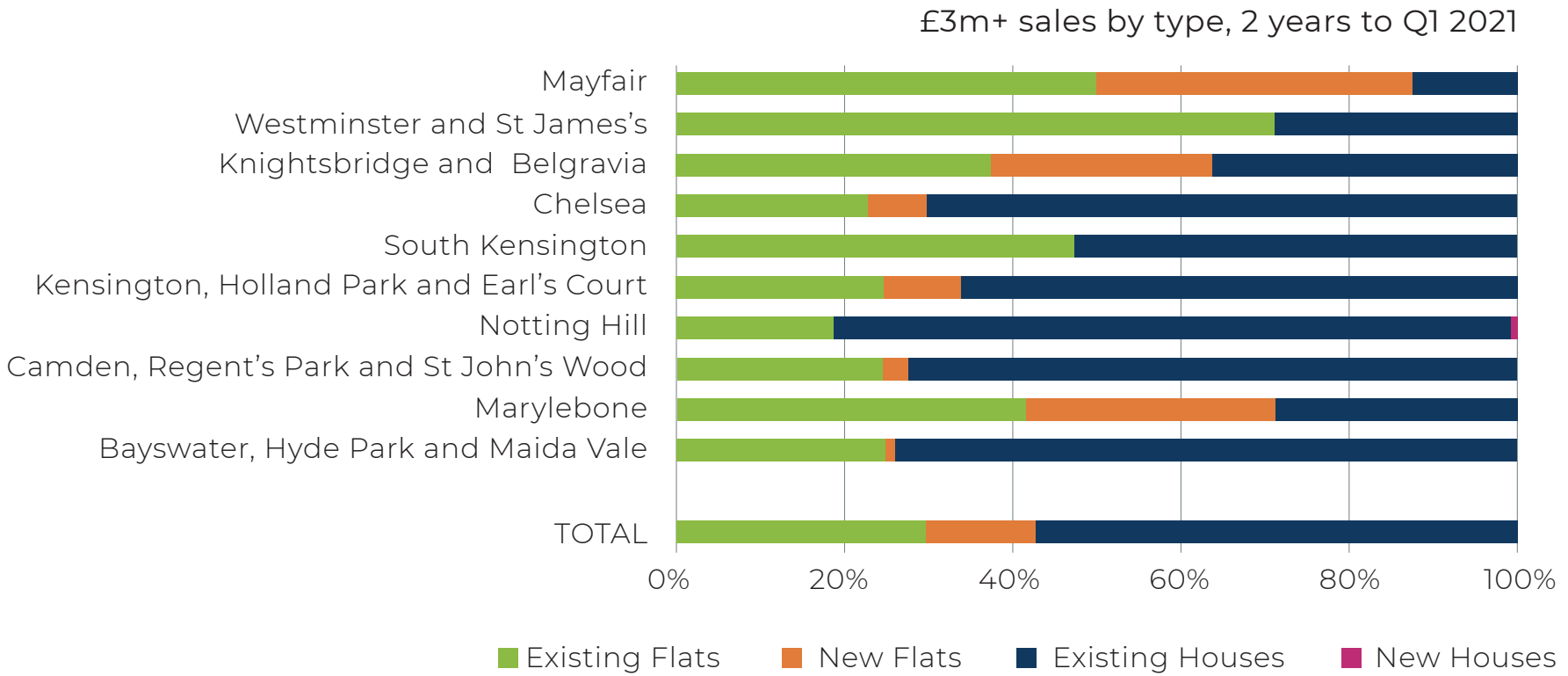
Price band	Existing flats	New flats	Existing houses	New houses
£3-4m	73	4	108	0
£4-5m	31	5	61	0
£5-6m	25	8	47	0
£6-7m	17	5	29	0
£7-8m	10	2	24	0
£8-9m	5	7	21	0
£9-10m	4	1	13	0
£10-12.5m	1	1	15	0
£12.5-15m	1	3	8	0
£15-17.5m	1	1	4	0
£17.5-20m	1	3	3	0
£20-25m	0	3	2	0
£25-30m	0	0	2	0
£30-40m	0	3	0	0
£40-50m	0	1	0	0
£50m+	1	0	0	0
TOTAL	**170**	**47**	**337**	**0**

Source: Land Registry Price Paid Data



% change in # of sales
12 months to Q1 2021 vs. previous years

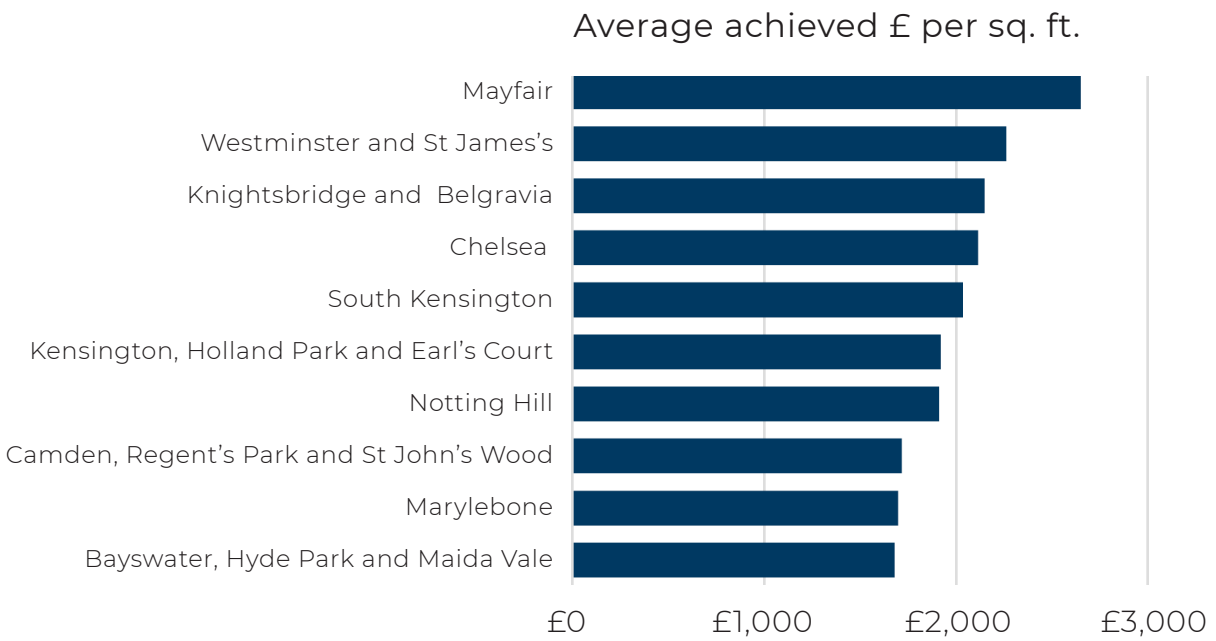
LOCAL ANALYSIS: PART ONE

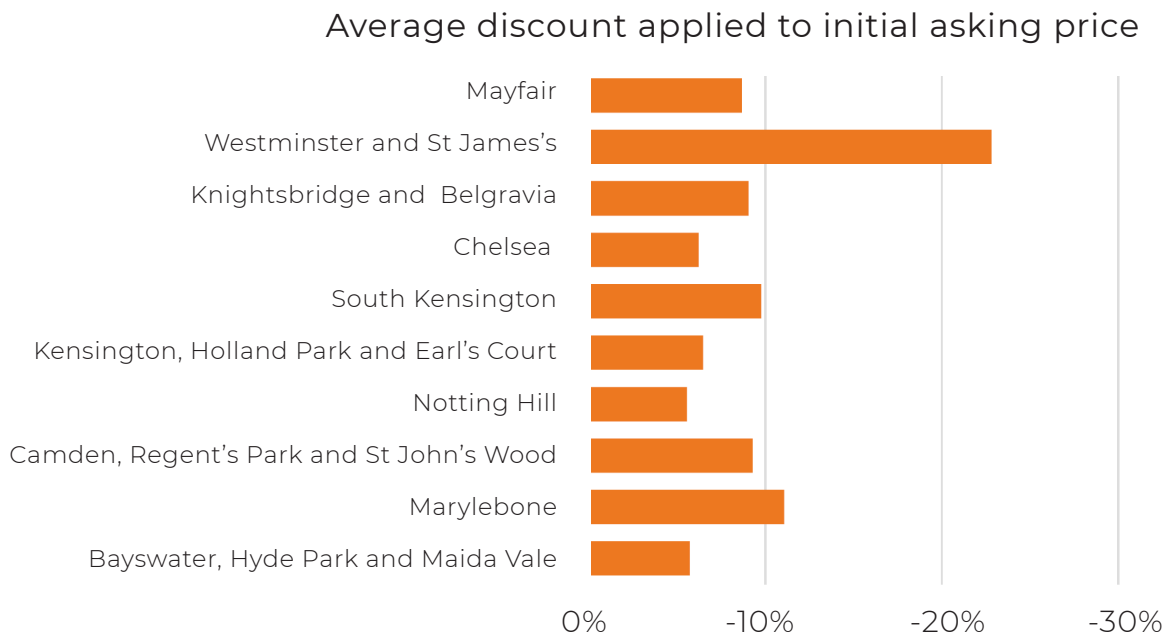


Source: Land Registry Price Paid Data

- New build homes have accounted for 11% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 58% to 42%.
- Mayfair, Marylebone and Knightsbridge & Belgravia had the highest proportions of new build activity.

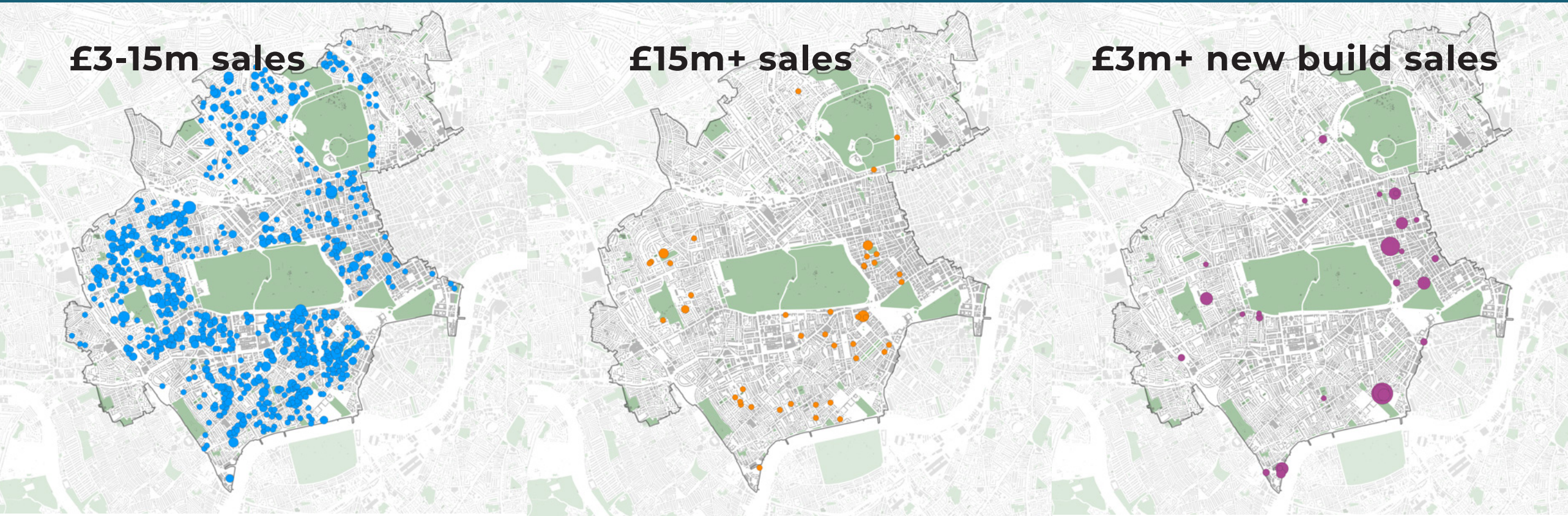
LOCAL ANALYSIS: PART TWO





Source: LonRes, £3m+, 12 months to Q2 2021

ACTIVITY MAPS



Source: OS OpenData, HM Land Registry.

Notes: Size of dot = # of sales. All recorded sales April 2019 to March 2021. First two maps pre-owned only.

FORECAST SUMMARY

- As we pass the mid-point of the year, the forecasting consensus – at least in the shorter-term – has become clearer. There is potential for price growth in PCL, but the full return of international demand is required to unlock it. At present, this view results in expectations of slight price growth this year and stronger performance next year, but clearly these are subject to revision if the projected path of the Pandemic or economic recovery change significantly.
- The PCL forecasts from Knight Frank and Savills are unchanged from those released in March.
- Knight Frank's PCL forecast expects 2.0% growth in 2021, with stronger growth of 7.0% next year. Overall, they see PCL outperforming mainstream London over the five-year period (25.1% vs. 18.2%).
- Savills PCL forecast has a similar shape, with slightly lower total growth over the five years. Their Greater London figures remain pessimistic compared to other forecasters.
- Cluttons updated their figures in July. They revised PCL growth down to -1.6% this year, bringing their expected five-year growth more into line with the other forecasters. They also see the strongest growth arriving in 2022.
- JLL made a small update to their mainstream forecasts in June, with the PCL figures remaining the same as published in November. They have responded to the high growth in the mainstream markets and now expect Greater London to outperform PCL, both this year and over the five-year forecast period.

FORECAST SUMMARY

	Agent	*Last updated*	2021	2022	2023	2024	2025	5 year (21-25)
Prime Central London	Savills	Mar 2021	3.0%	7.0%	4.0%	2.0%	4.0%	**21.6%**
	Knight Frank	Mar 2021	2.0%	7.0%	5.0%	4.0%	5.0%	**25.1%**
	JLL	Nov 2020	1.0%	5.0%	4.5%	4.0%	3.5%	**19.3%**
	Cluttons	Jul 2021	-1.6%	7.5%	7.0%	4.0%	3.5%	**21.8%**
Greater Central (mainstream)	Savills	Jul 2021	7.0%	2.0%	1.5%	1.0%	0.5%	**12.4%**
	Knight Frank	Mar 2021	4.0%	4.0%	3.0%	3.0%	3.0%	**18.2%**
	JLL	Jun 2021	6.0%	2.5%	5.0%	6.5%	5.0%	**27.6%**

Source: Agent websites and latest reports. All figures nominal.
Notes: Cluttons do not publish Greater London forecasts. CBRE have not published updated UK residential forecasts so are not included this quarter.

RISKS AND OUTLOOK

Positive ⟷ Negative

Return to normality On the positive side, the return to some level of normality is clearly welcome to many and is likely to build consumer confidence across the economy – important for all housing markets but especially for a discretionary one like PCL. The final step in unlocking the domestic economy was delayed by a month but took place on July 19th, with some international travel restrictions also being loosened.	**Unlocking too soon?** There are also potential downsides to unlocking now while cases are rising rapidly. These risks include allowing vaccine-resistant variants to develop, necessitating a return to lockdown, or other nations limiting travel to the UK if they do not have high levels of vaccination.
Outmigration slowing The May LonRes survey reported that 75% of agents thought that the number of Londoners looking to leave the capital had peaked. This feeds in to a general feeling of optimism: over 65% of agents expect prices to rise over the next 12 months and a similar proportion expect transaction levels to increase.	**Support withdrawn** With the removal of restrictions comes the withdrawal of Government funding schemes. With over 2 million people still furloughed at the end of May, the true state of the economy will become clear once support is taken away. This could lead to rising unemployment and business closures, with the subsequent impact on the financial and professional services sectors most relevant to the PCL property markets.