

JUSTIN MASON

VALUATION • CONSULTANCY

Prime Central London Update August 2022

Key Highlights

- Prime Central London* sales activity remained strong in Q2, with 208 transactions recorded by LonRes**. This is 11% up on Q1 2022's level of activity.
- On an annual basis, there were 788 sales above £3m in the 12 months to June 2022, 12% higher than a year earlier and 55% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Evidence on values in Q2 was mixed. The completions-based figures tended to show higher levels of growth whereas opinion-based indices – by their nature more sentiment-driven and forward looking – reported more conservative estimates. The value gap between houses and flats on a £ per sq ft basis fell to its lowest level since the start of the dataset in 2013.
- Average discounts in PCL fell in Q2, continuing the trend since 2019. Broken down by property type, average discounts for houses remain smaller than for flats (4.8% as opposed to 7.2%), but the gap continued to close in Q2 – it was around twice as large in late 2021.
- Q2 was relatively quiet for forecasting. Some agents tweaked their expectations for 2022 to reflect the results over the first half of the year, but the majority of figures remained unchanged. In general, for PCL this means strong growth is expected in 2022 and total five-year growth of 20 to 25%. However, with inflation rising again the real rate of return could be much lower, and these predictions are likely to be very sensitive to changes in the interest rate environment.

*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 professionals working in London.

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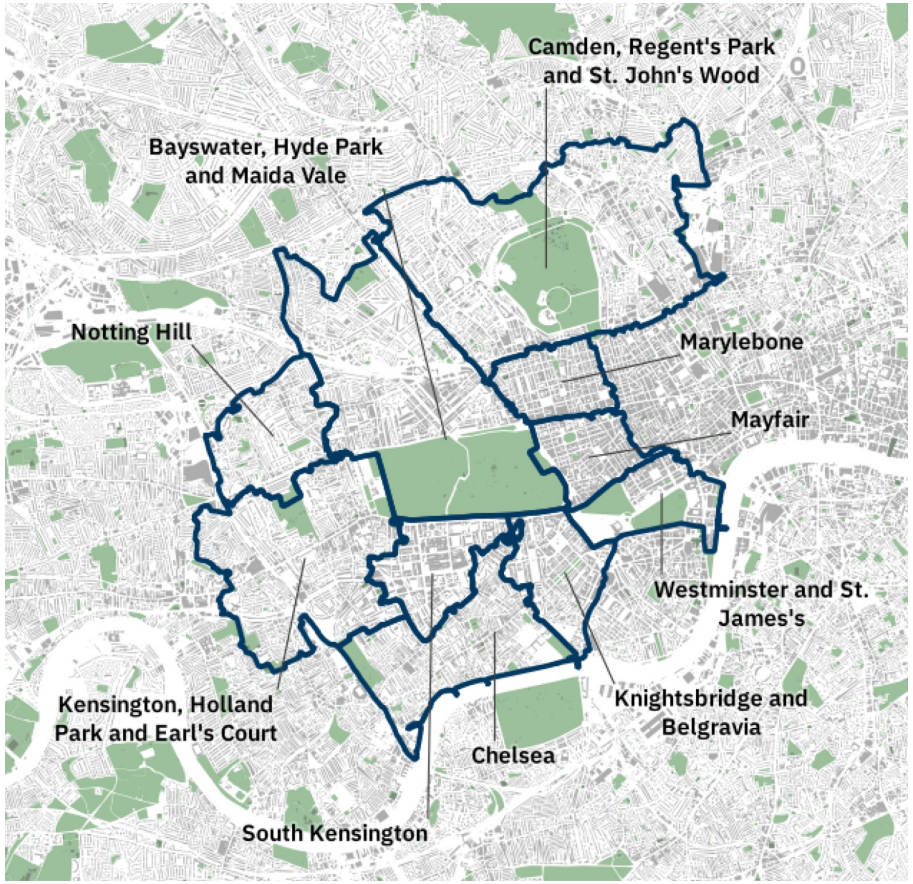


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Market Background

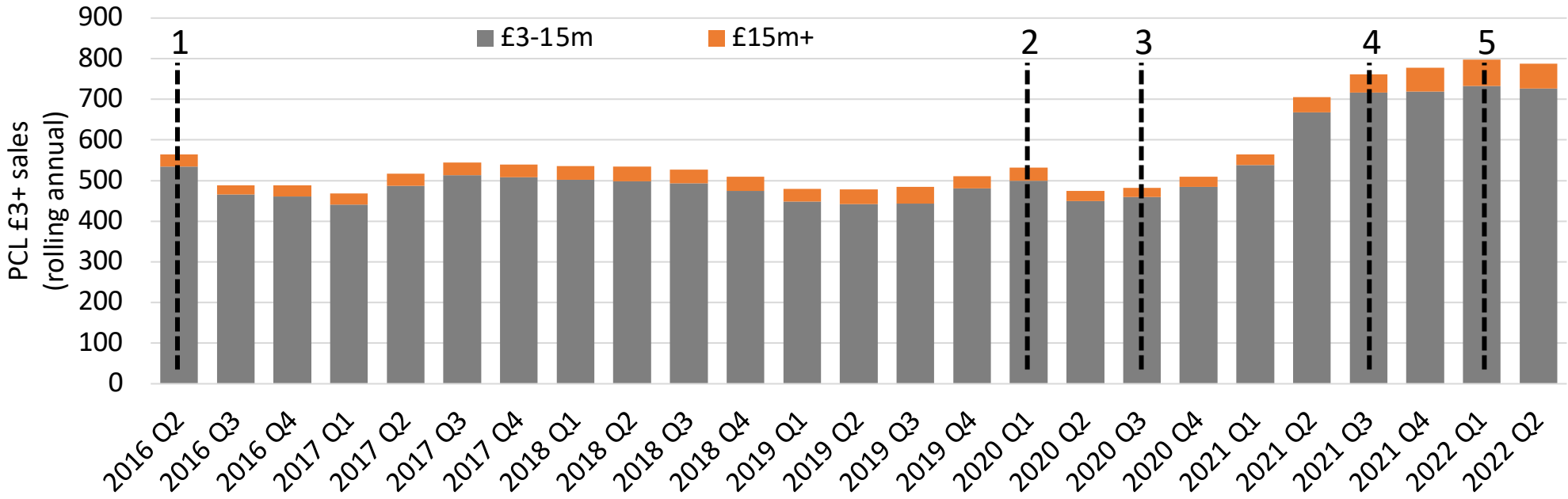


Area	Transactions (12m to Mar-22)	Compared to last Q (12m to Dec-21)
England	810,000	Down 162,000 (-17%)
London	95,000	Down 21,000 (-18%)
Camden, Westminster and RBKC	6,200	Down 1,200 (-16%)
PCL £3m+	650	Down 120 (-15%)

Source: Land Registry Price Paid Data
Notes: Figures rounded. Previous Q figures have been revised.

- 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



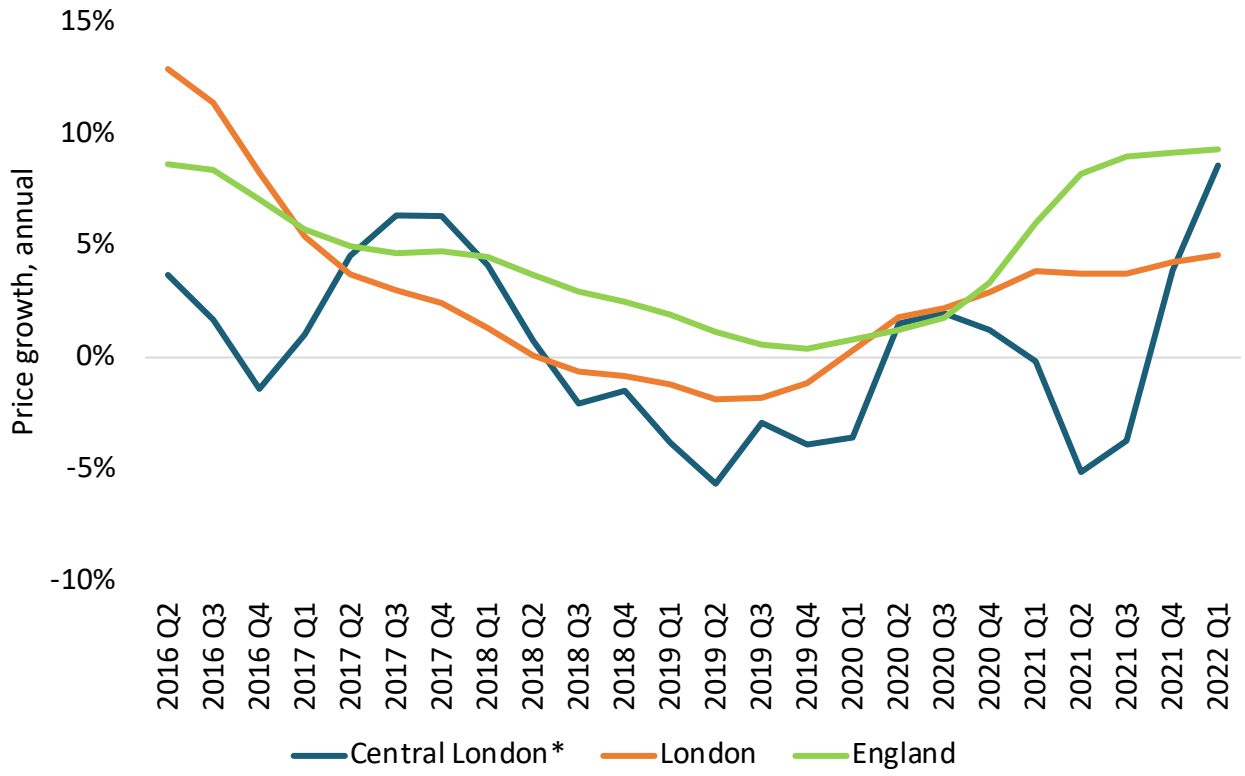
Source: LonRes

Q2 2016	Mar 2020	Jul 2020	Q2 2021	Q1 2022
1: 3% SDLT surcharge and Brexit referendum	2: First Covid-19 lockdown starts	3. Stamp Duty holiday starts	4: Stamp Duty holiday tapers down (ends in Q3)	5: Start of Russia-Ukraine conflict

Transaction Trends

- Activity in PCL was broadly stable in Q2, with sales volumes slightly higher in the prime £3-15m price band and slightly lower in the £15m+ bracket, compared to Q1.
- In Q2 there were 208 transactions across both price bands, 11% higher than Q1 2022 but 5% lower than Q2 a year ago, based on LonRes data. The small fall on an annual basis is actually a very strong performance, as Q2 2021 saw very high activity across all markets due to buyers rushing to take advantage of stamp duty savings.
- On an annual basis there were 727 recorded prime sales and 61 super prime, totalling 788. This is broadly in line with the annual figure for Q1 (798). The current level is 55% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.
- The steady performance of the PCL property market so far in 2022 contrasts with that of the wider economy. GDP growth has been volatile this year, with a large monthly rise of 0.5% in May – surprising many economists – following a fall in April and worries about a recession. Inflation hit 9.4% in June, exacerbated by the impact of the conflict in Ukraine on food and energy prices.

House Price History

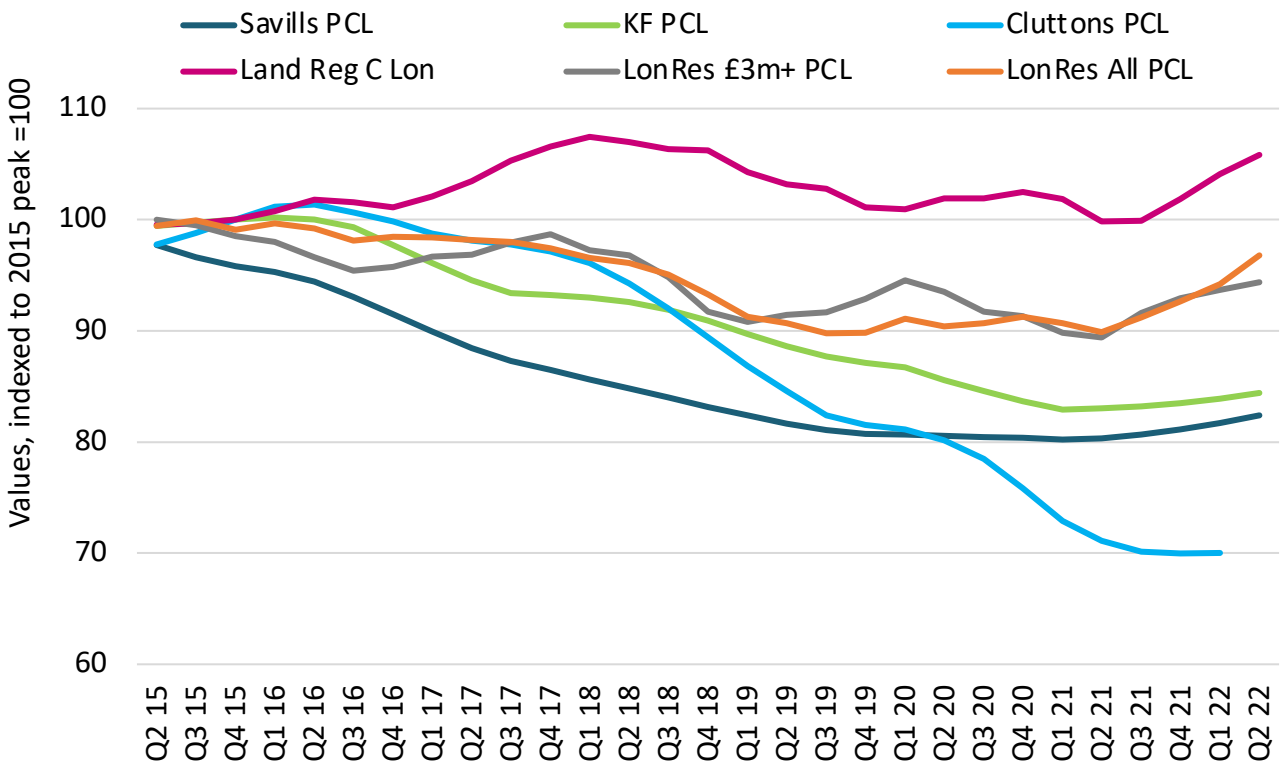


Source: ONS UK HPI (data smoothed, 6 months)

**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*

- National house price growth remained stable in Q1 at 9.3% annual (9.2% in Q4), according to the ONS index for England.
- Values in central London boroughs* grew very strongly in Q1, with an annual rise of 8.6%.
- This brought central London approximately into line with the national average figure, overtaking the wider London region (+4.6%).

Achieved Prices and Agents' Indices



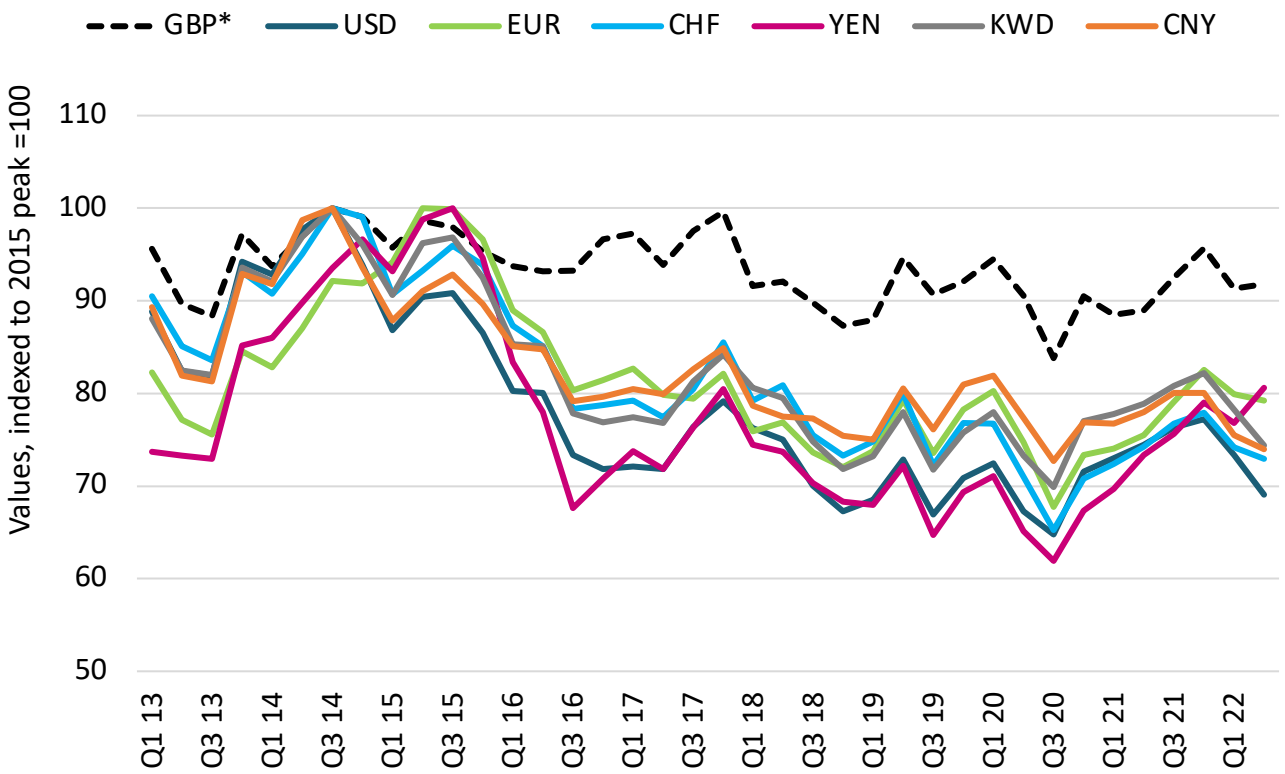
Source: Land Registry, Savills, Knight Frank, LonRes, Cluttons

Notes: All data 12-month smoothed. LonRes data is not an index, see next section.

**Central London defined again as Westminster, RBKC and Camden average*

- 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 Central London*, based on completed sales, however this covers a different area and much wider range of house prices. This index continues to show higher relative performance, with values above 2015 levels.
- Savills and Knight Frank both reported quarterly rises in the 0.5% to 1% range in Q2, with annual growth currently around 3%.
- LonRes achieved £ per sq ft data is included on the chart for comparison, recording higher levels of growth.

Pricing in Other Currencies

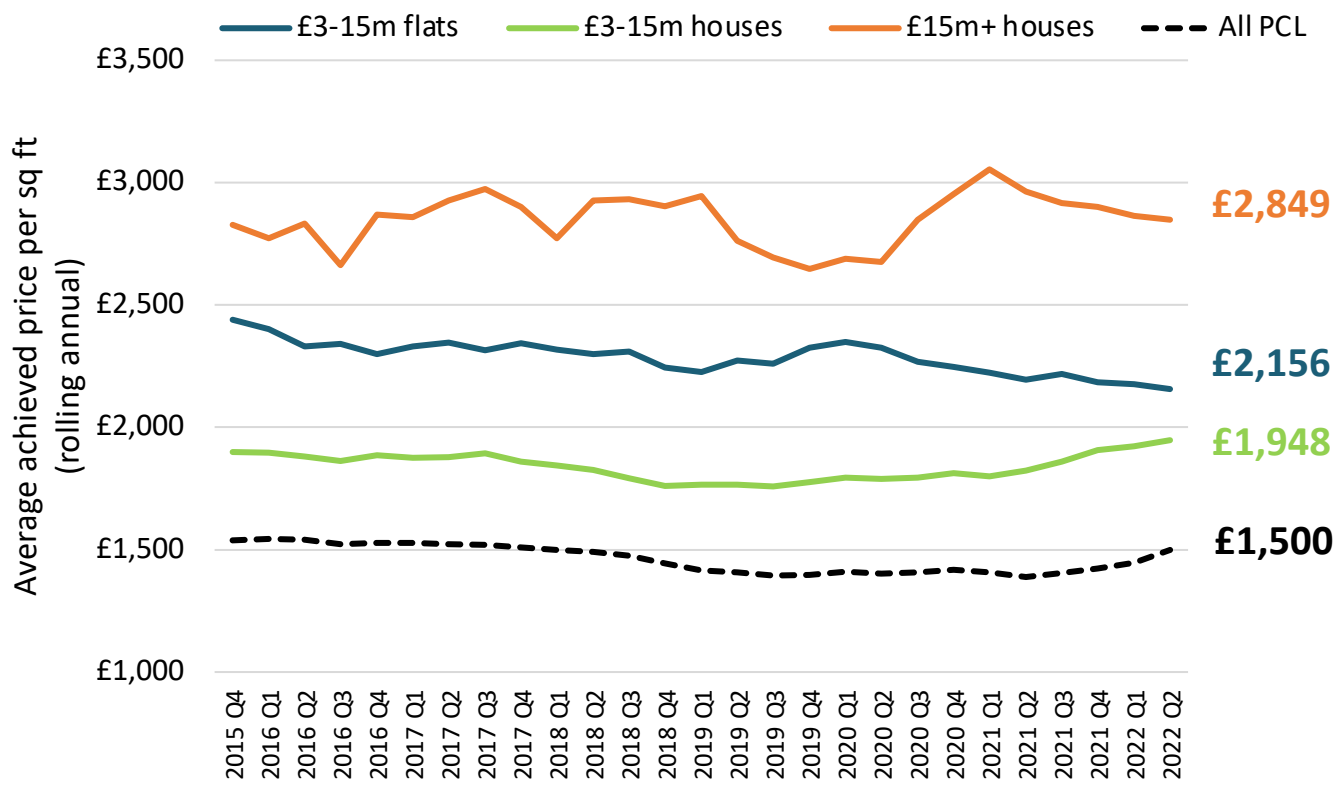


- London is a global city with market participants from all over the world.
- Nominal price movements in sterling therefore do not necessarily reflect the effective price for buyers holding wealth in other currencies.
- This chart shows the effective price movements of PCL property in a range of major currencies.
- Even in the most 'expensive' currency, Japanese Yen, prime London homes are around 20% below their 2015 peak, compared to 8% in sterling terms. In US dollars the equivalent figure is 31%.

Source: LonRes, Yahoo Finance

** GBP is based on LonRes £3m+ average £ per sq ft values*

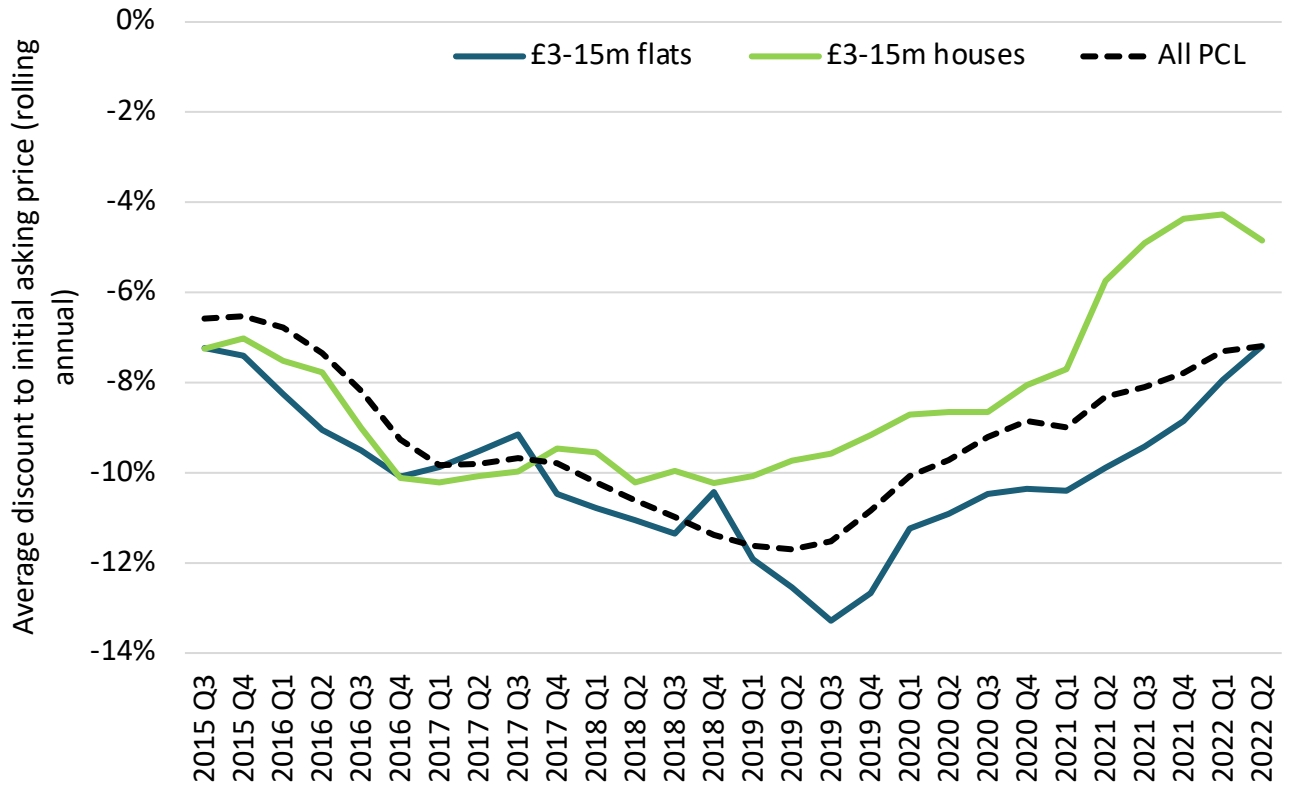
Achieved £ per sq ft by year



Source: LonRes

- On an annual basis, achieved values for PCL overall saw an 8% rise (£1,500 in Q2 2022 vs £1,388 in Q2 2021), the largest rise since 2015.
- In the higher price bands the gap between flat and house values continued to close, with £3-15m flat values down 2% compared to a year earlier and £3-15m houses up by 7%.
- £15m+ houses were down by 4% (but this is a smaller sample and more volatile).
- Over the past five years, the changes in £ per sq ft values are as follows:
  - -8% for £3-15m flats
  - +4% for £3-15m houses
  - -3% for £15m+ houses
  - -2% for all PCL
- Note that these figures are simple averages rather than an index, but they indicate lower falls in the values of sales agreed compared to the opinion-based indices.

Average Discount to Asking Price

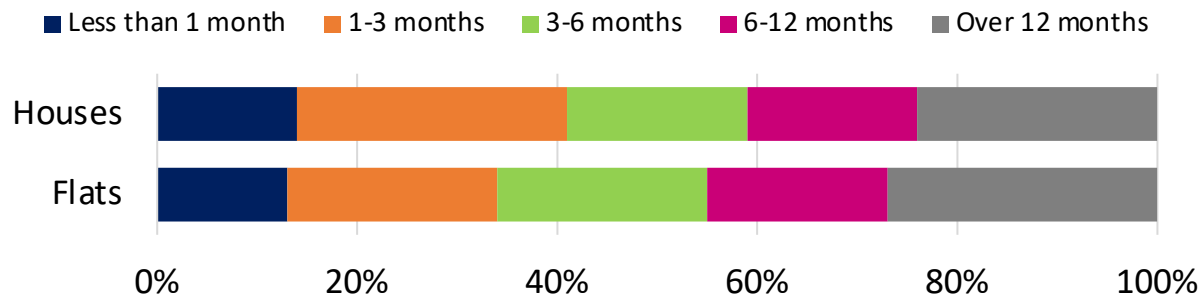


Source: LonRes

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

- Average discounts across PCL fell slightly in Q2 to 7.2%, continuing the trend since 2019.
- In the £3-15m markets discounts decreased again in Q2 for flats but rose for houses. The average discount for £3-15m houses reached 4.8% compared to recent minimum of 4.3%, while flat discounts in this price band fell to an average of 7.2%, a seven-year low.
- The difference in average discounts between flats and houses in the £3-15m band fell back to 2.3 percentage points, from a peak of 4.5 in the second half of 2021.

Time on the Market



43.7%

Over 2 in 5 properties have been discounted

18.9%

Over 1 in 6 are currently under offer

-3.8%

Stock levels are lower than one year ago

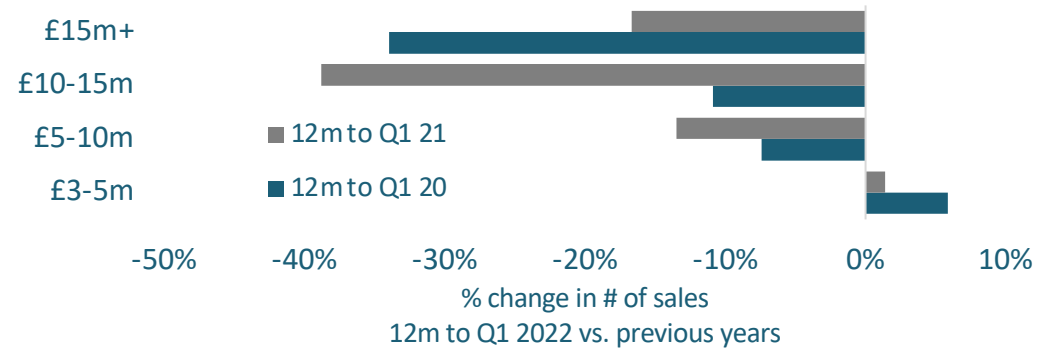
- For current listings in PCL*, 44% have been on the market for over 6 months (41% for houses; 45% for flats).
- This data indicates an average time on the market of around 7.3 months for houses and 7.9 months for flats.
- Stock levels fell on an annual basis by 3.8%. New instructions are in line with typical levels, but this is not sufficient to keep pace with current levels of sales activity.

Source: LonRes, data for Q2 2022 only

**Note: Time on market data relates to PCL properties of all values – not available by price band*

Depth of Market

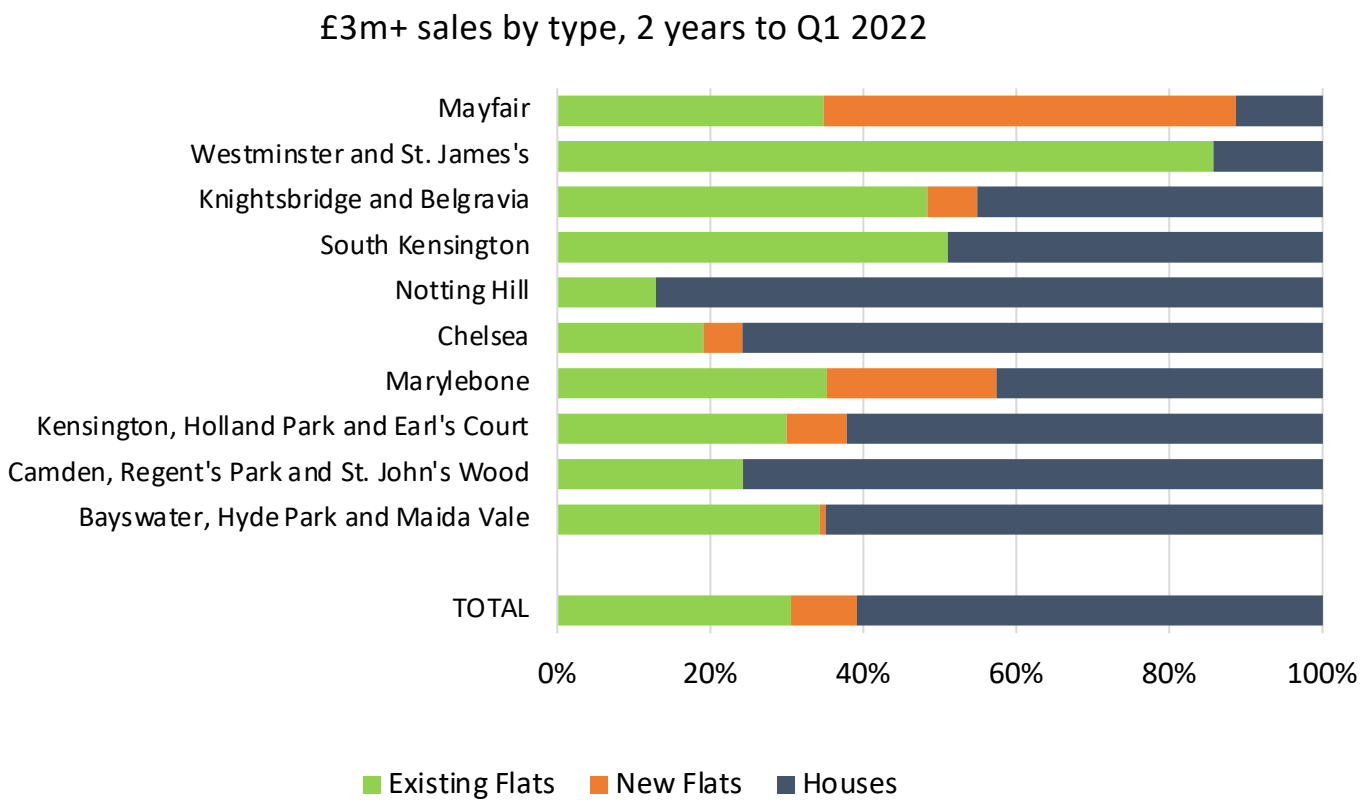
Price band	Existing flats	New flats	Houses*
£3-4m	82	9	116
£4-5m	52	7	96
£5-6m	23	3	59
£6-7m	16	1	41
£7-8m	8	0	22
£8-9m	5	2	23
£9-10m	1	2	6
£10-12.5m	6	1	19
£12.5-15m	4	0	11
£15-17.5m	2	0	8
£17.5-20m	1	0	1
£20-25m	2	1	8
£25-30m	0	0	3
£30-40m	1	2	3
£40-50m	1	0	0
£50m+	2	0	0
TOTAL	**206**	**28**	**416**



- The table shows £3m+ sales volumes by price band in the 12 months to Q1 2022, according to Land Registry completions data. A comparison to the trends in the two previous years is shown in the chart.
- Relative to previous years, activity over the past 12 months is up in the £3-5m markets, but down across the higher price points.
- * Land Registry data notes:
  - Refurbished houses are included in 'Houses' as these are not distinguished in the data.
  - There can be a significant delay in recording completions, so any drops in activity shown in the chart may be overstated, with revisions in future releases likely.

Source: Land Registry Price Paid Data

Local Analysis: Part One

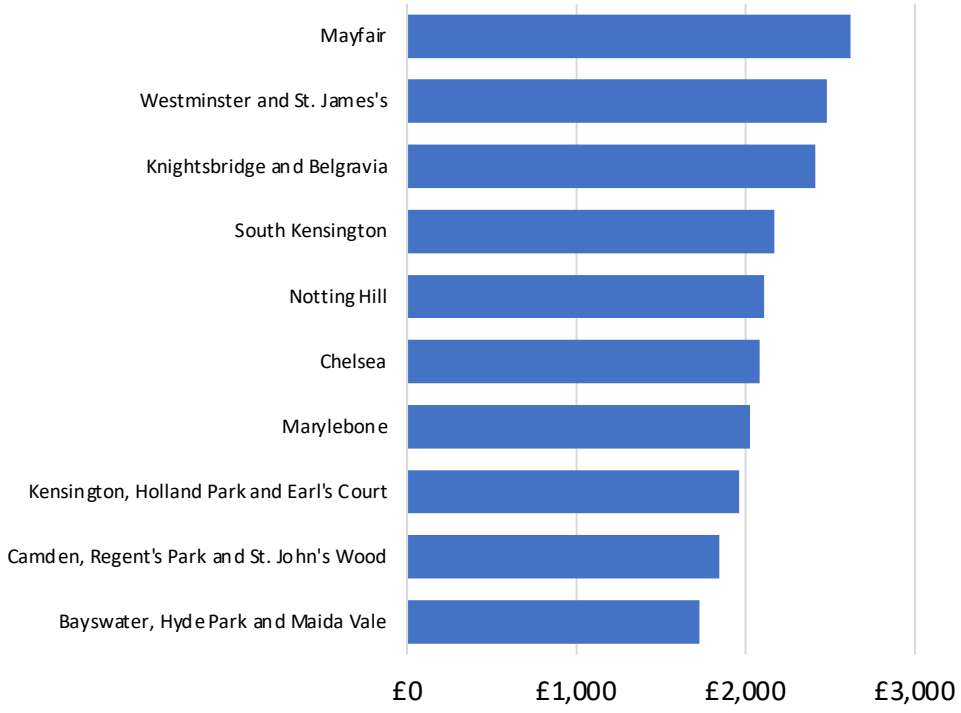


- New build homes have accounted for 9% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 61% to 39%.
- Mayfair had the highest proportion of new build activity over this period, followed by Marylebone.

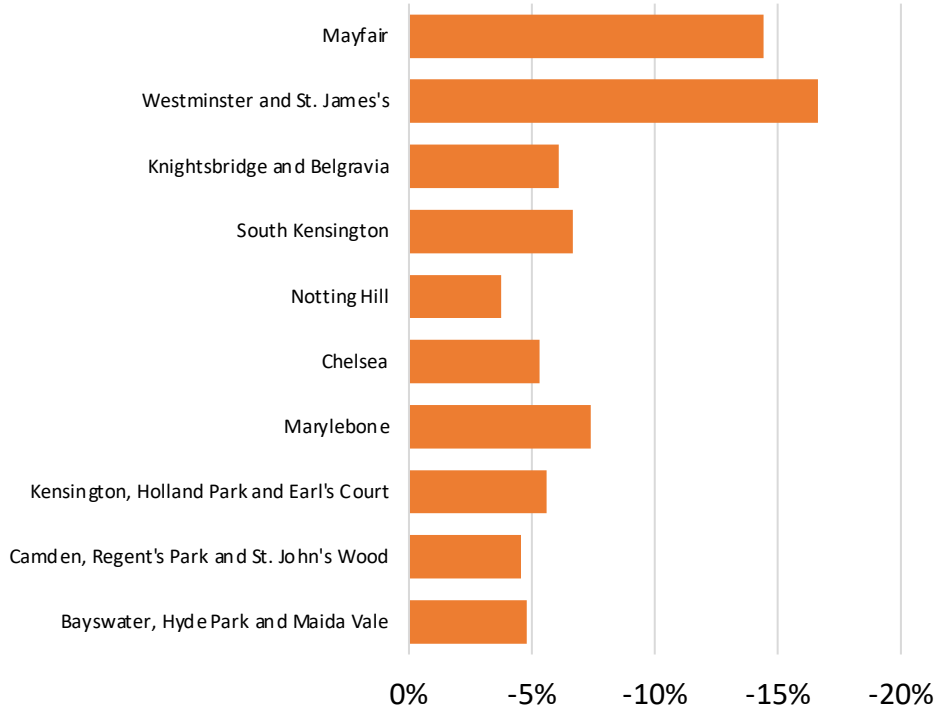
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq. ft.

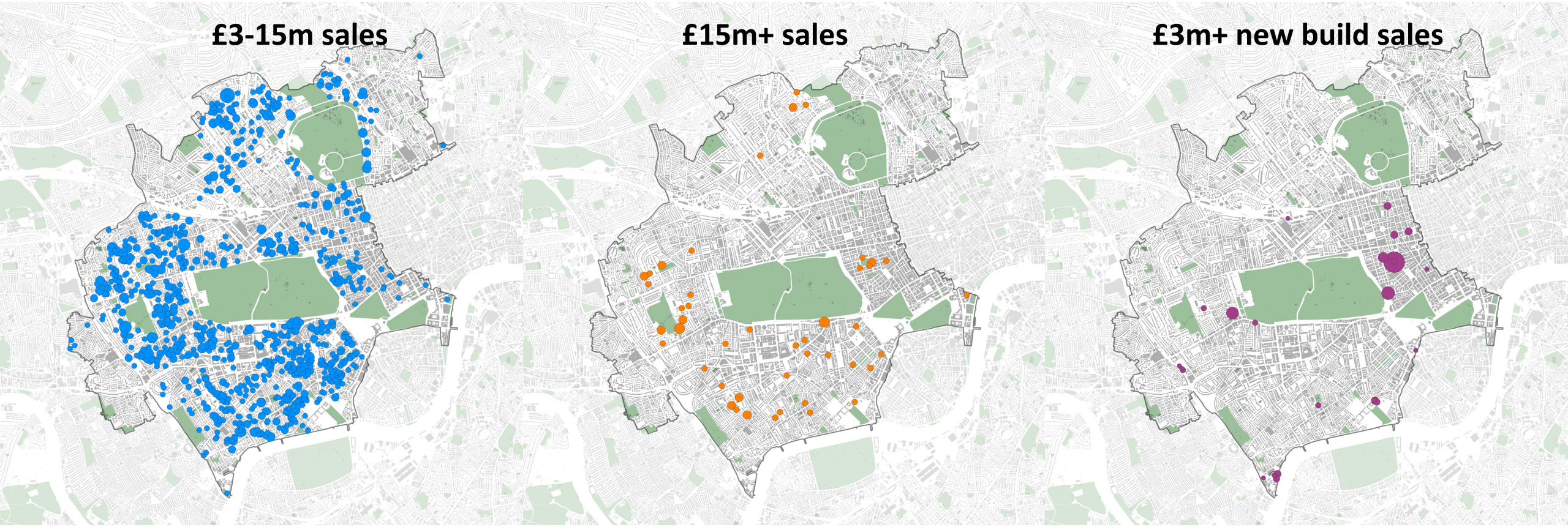


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q2 2022

Activity Maps



Source: OS OpenData, HM Land Registry

Notes: Size of dot = # of sales. All recorded sales Apr 2020 to Mar 2022. First two maps pre-owned only.

Forecast Summary

- Q2 was a relatively quiet quarter for forecasting with limited changes to the agents' forecasts.
- Knight Frank made a small change to their forecasts in June, noting that the lack of new supply is supporting values and that at national level "price growth is expected to end the year in high, rather than mid-single, digits." For Greater London this results in a rise from 4.0% to 6.5% and for PCL it means a small upgrade from 3.5% to 4.0%. Their 2023 onward figures are unchanged.
- Savills also made some minor revisions in July/August. For PCL the five year forecast remains relatively strong (at 22%, compared to 24% previously), but the 2022 figure was reduced to 4% from 8%, with higher growth expected next year. For Greater London mainstream, overall five year growth expectations were increased slightly to 8.2%, but remain well below other forecasters.
- Cluttons made a small change in the other direction, bringing 2022 PCL growth expectations down slightly to 6.2%, with the remaining years unchanged. JLL did not update any of their figures in Q2.
- Growing concerns around the cost of living and mortgage rate increases are cited as reasons to expect slowing growth, although they are more likely to impact values in the mainstream markets compared to prime. The relatively stable forecasts indicate that these expectations may be 'priced in', but it remains to be seen whether this trend continues now that the current economic uncertainty is joined by even more political uncertainty with the upcoming change of Prime Minister.
- An important point to note is that all these figures are nominal. Over recent years, inflation has been very low, but CPI reached 9.1% in May, the highest figure since 1982. Further rises are possible in the short term, meaning that even the high levels of nominal growth forecast for 2022 would be much lower in real terms.

Forecast Summary

	Agent	*Last updated*	2022	2023	2024	2025	2026	5 year (22-26)
Prime Central London	Savills	*Aug 2022*	4.0%	7.0%	2.0%	3.5%	3.5%	**21.6%**
	Knight Frank	*Apr 2022*	4.0%	6.0%	5.0%	3.0%	3.0%	**22.2%**
	JLL	*Nov 2021*	7.5%	5.0%	2.5%	3.0%	3.0%	**22.7%**
	Cluttons	*May 2022*	6.2%	5.5%	4.0%	3.5%	2.8%	**24.0%**
Greater London (mainstream)	Savills	*July 2022*	3.5%	-1.0%	1.5%	2.0%	2.0%	**8.2%**
	Knight Frank	*June 2022*	6.5%	1.0%	1.5%	1.5%	2.0%	**13.0%**
	JLL	*Nov 2021*	6.0%	5.5%	3.5%	4.0%	4.5%	**25.8%**

Source: Agent websites and latest reports. All figures nominal.

Notes: Cluttons do not publish Greater London forecasts. CBRE have not published prime forecasts so are not included this quarter.

Risks and Outlook

Positive

Market evidence looks good

Data covering transactions that have already happened continue to indicate a relatively healthy market. After volatility through 2020 and 21, activity has settled at a level above the pre-Pandemic baseline and values have been rising steadily.

Other metrics like time to sell and average discount also paint a positive picture for the strength of demand in the market, with the supply of new instructions just about keeping up.

Rental recovery

The recovery of the rental market may support values even in the face of weakening buyer demand. Annual rental growth in PCL is currently around 30%, more than recovering the falls seen during the pandemic – rents are now 10% above their level at the end of 2019.

Even if yields increase in response to rising interest rates and inflation, a strong rental market puts a floor on values for potential vendors, as well as making letting out their property a more attractive option.

Negative

Sentiment more mixed

Forward-looking measures of sentiment are less positive, with some agents reporting buyers showing more caution in the face of growing economic and political uncertainty.

If this 'wait and see' approach extends to a significant proportion of buyers, as well as potential vendors, a slowdown in activity is likely. Values could also slip back if the lack of turnover means the deals that are being done become increasingly dominated by more motivated sellers.

Inflation proving stubborn

Inflation has continued to rise, with CPI reaching 9.4% in June. The Bank of England has raised the base rate four times in 2022 so far, to 1.25%, as it attempts to bring inflation down. Lenders have responded by increasing the cost of borrowing, even for low-LTV borrowers.

Overall, this should dampen demand for prime property, with yield expectations increasing as we move to a higher interest rate environment.