

JUSTIN MASON

VALUATION • CONSULTANCY

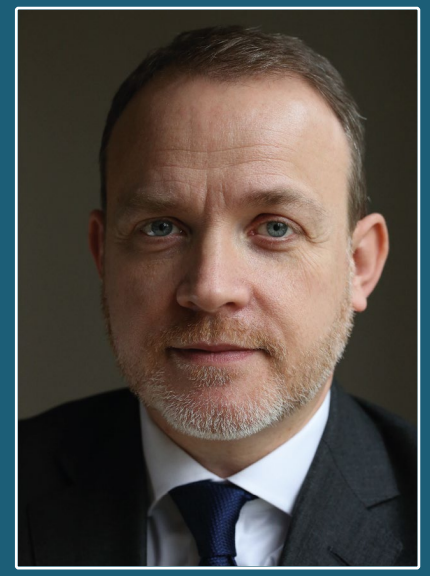
Prime Central London Update August 2023

Key Highlights

- Prime Central London* sales activity increased in Q2 2023, with 175 transactions recorded by LonRes**. This is 25% up on sales volumes in Q1 2023.
- There were 724 sales above £3m in the 12 months to June 2023, 7% lower than one quarter earlier but 42% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Values were broadly unchanged again in Q2. LonRes reported a small increase in achieved average £ per sq ft for £3m+ properties, and the agents' opinion-based indices were approximately flat. The value gap between houses and flats on a £ per sq ft basis widened for the fourth quarter in succession, after more than two years of closing.
- Average discounts in PCL increased in Q2, the third quarterly rise after three years of falls. Broken down by property type, average discounts for prime houses remain smaller than for flats (6.3% vs. 8.5%), with the gap the same as Q1.
- There were no changes across our sample of agents' forecasts in Q2, despite the uncertainty and volatility in financial markets. All our quoted forecasters expect PCL to outperform mainstream London, with JLL the most optimistic. With inflation still very high the real rate of return could be lower still, and these predictions are likely to be very sensitive to further 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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Market Background

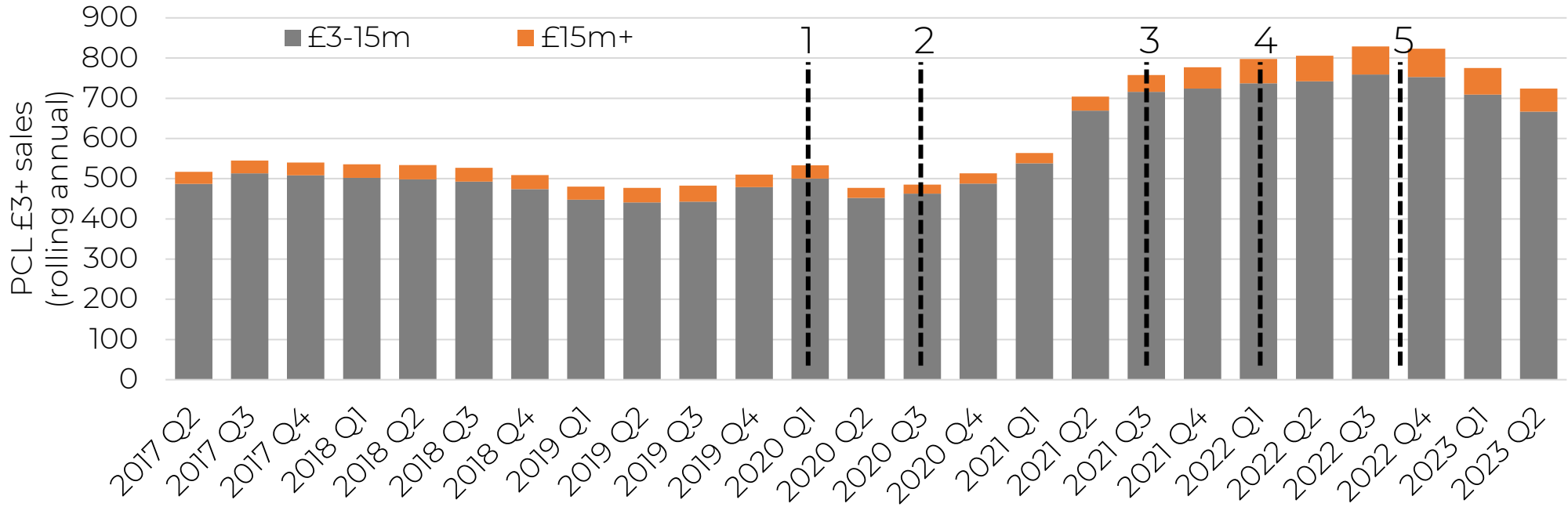


Area	Transactions (12m to Mar-23)	Compared to last Q (12m to Dec-22)
England	723,000	Down 74,000 (-9%)
London	87,000	Down 8,000 (-9%)
Camden, Westminster and RBKC	6,500	Down 600 (-9%)
PCL £3m+	760	Down 150 (-16%)

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

- The £3m+ Prime Central London market typically 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



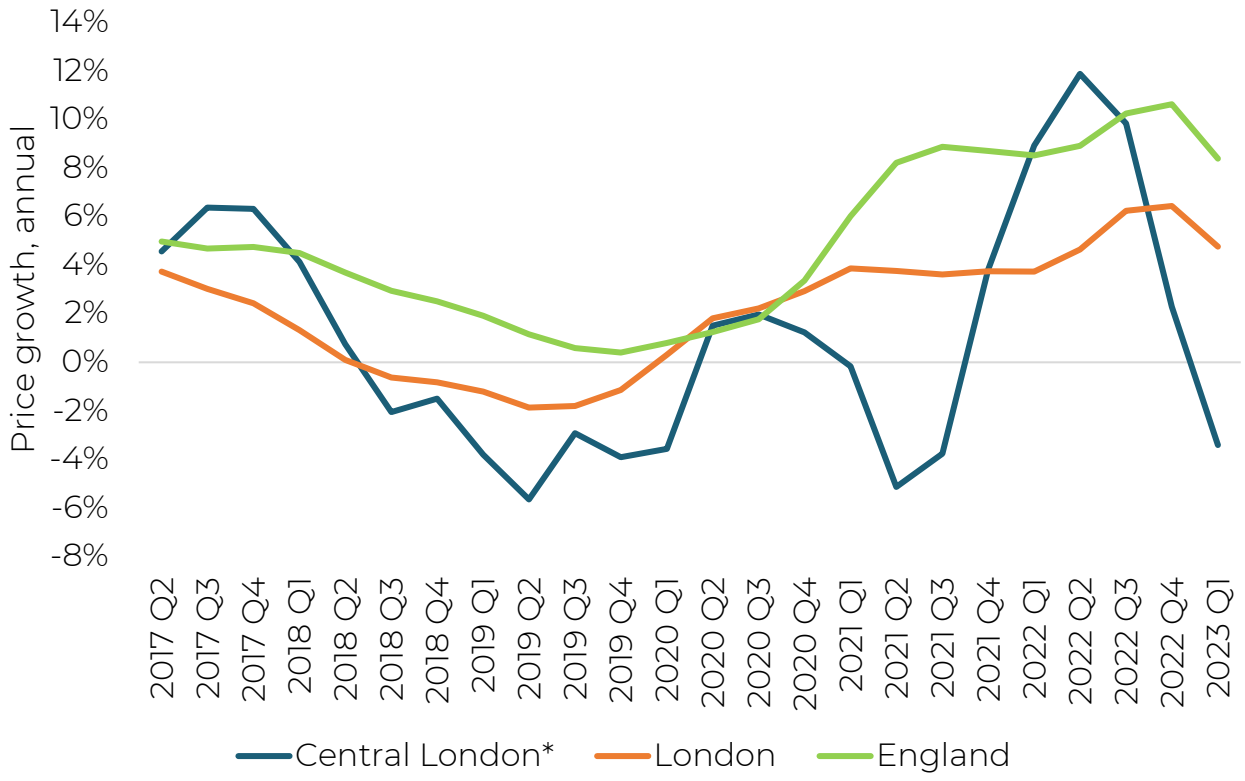
Source: LonRes

Mar 2020	Jul 2020	Q2 2021	Q1 2022	Sep-Oct 2022
1: First Covid-19 lockdown starts	2. Stamp Duty holiday starts	3: Stamp Duty holiday tapers down (ends in Q3)	4: Start of Russia-Ukraine conflict	5: Rishi Sunak becomes third PM of 2022 after Liz Truss resigns

Transaction Trends

- £3m+ activity in PCL in Q2 2023 increased compared to Q1. In a reversal from last quarter, the prime £3-15m price band performed better whereas the £15m+ super prime market saw lower transaction volumes.
- In Q2 there were 175 transactions across both price bands, 25% higher than Q1 2023 but 23% lower than Q2 a year ago, based on LonRes data.
- There were 667 recorded prime sales and 57 super prime over the past 12 months. The total figure of 724 transactions is 7% down on those in the 12 months to March 2023. Despite these falls, the current level is 42% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.
- The slowing of activity noted last quarter continued in Q2, but these results should be considered in the context of high volumes across the prime London market in 2021 and 2022. Prior to Q3 2021, the 724 sales recorded in the previous 12 months is more than any time since 2014. So, while the market is falling back, it is doing so from a much higher level than the longer-term average.

House Price History

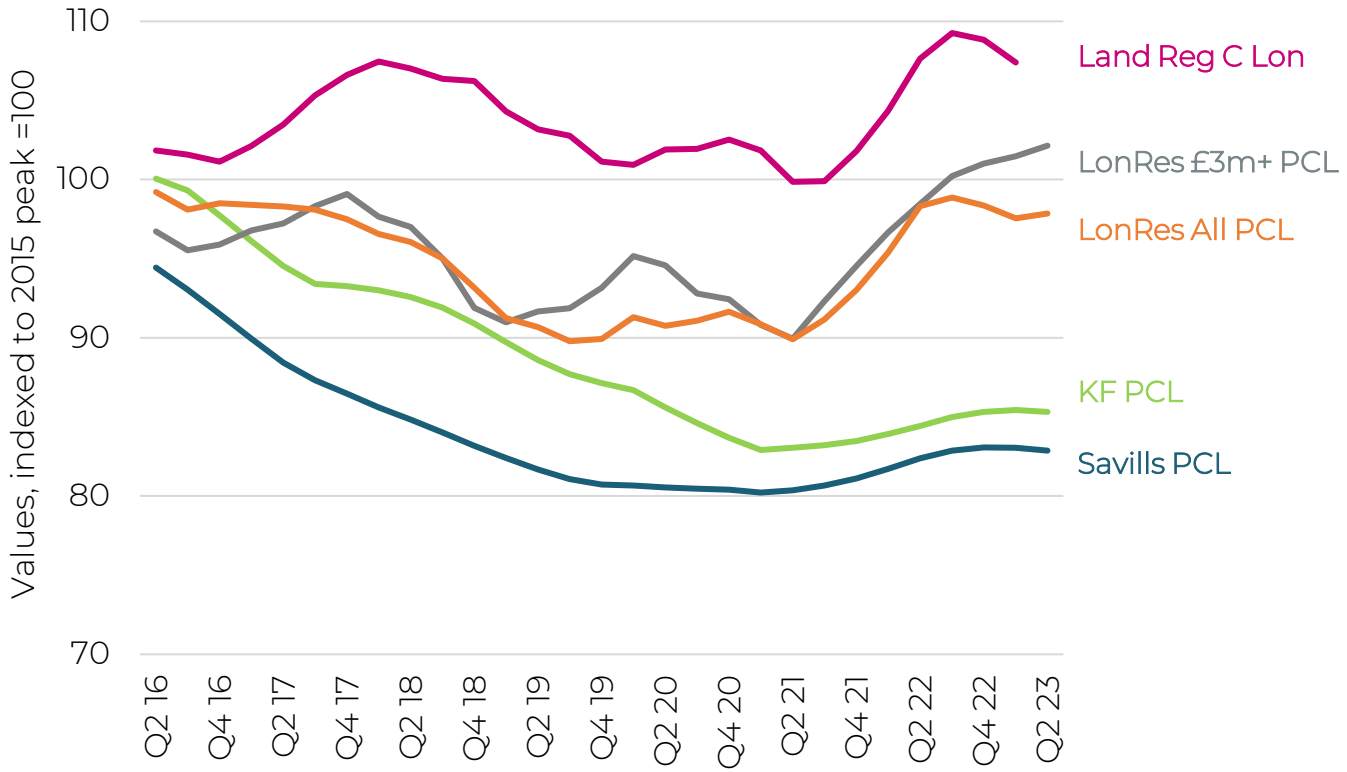


Source: ONS UK HPI (data smoothed, 6 months)

**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 fell in Q1 to 8.4% annual (from a revised 10.6% in Q4), according to the ONS index for England.
- Prices fell in central London boroughs* in Q1, with an annual change of -3.4%, down from +2.3% in the previous quarter.
- Growth for the wider London region continued to lag the national average, falling slightly to 4.8%.

Achieved Prices and Agents' Indices



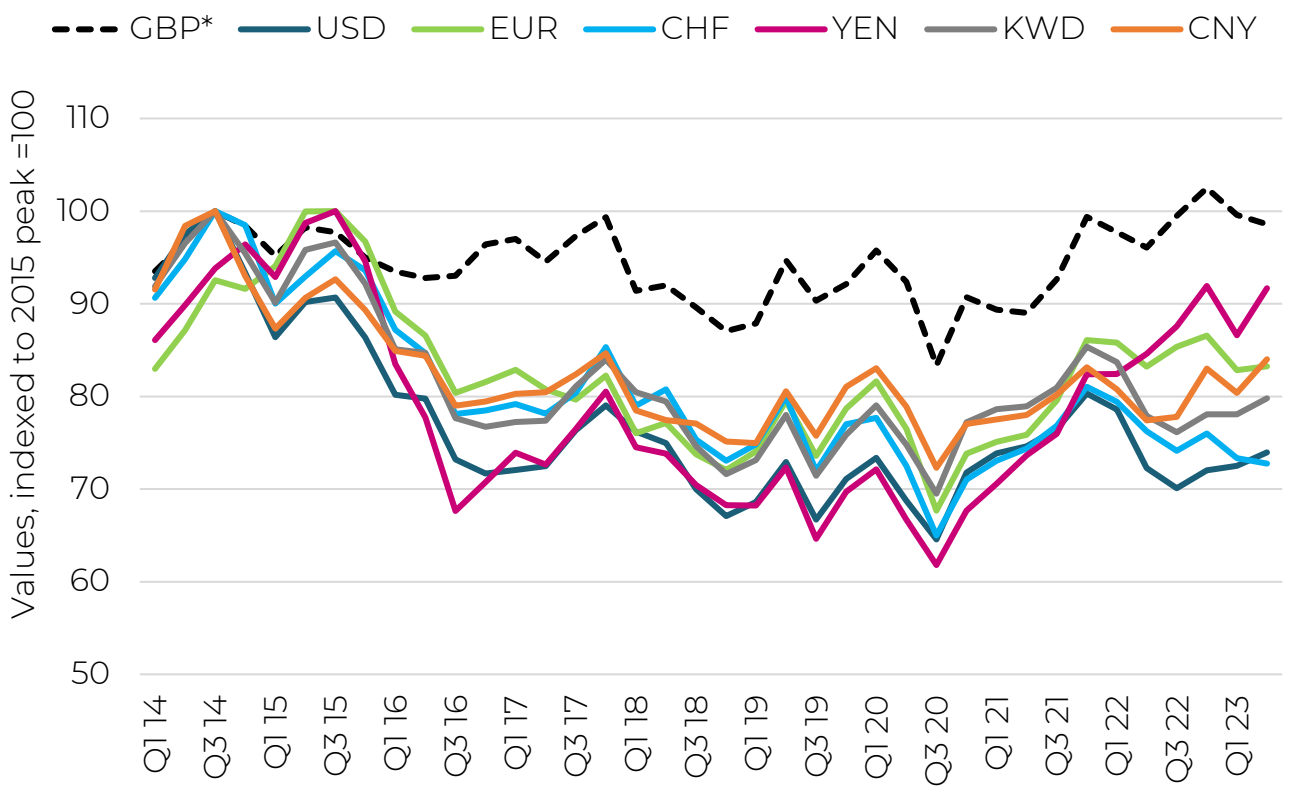
Source: Land Registry, Savills, Knight Frank, LonRes

Notes: All data 12-month smoothed. LonRes data is not an index, see page 9.

**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 very little change in values in Q2.
- LonRes achieved £ per sq ft data is included on the chart for comparison, generally recording price changes in between the Land Registry and agent indices. Both the £3m+ and 'All PCL' bands recorded growth in Q2.

Pricing in Other Currencies

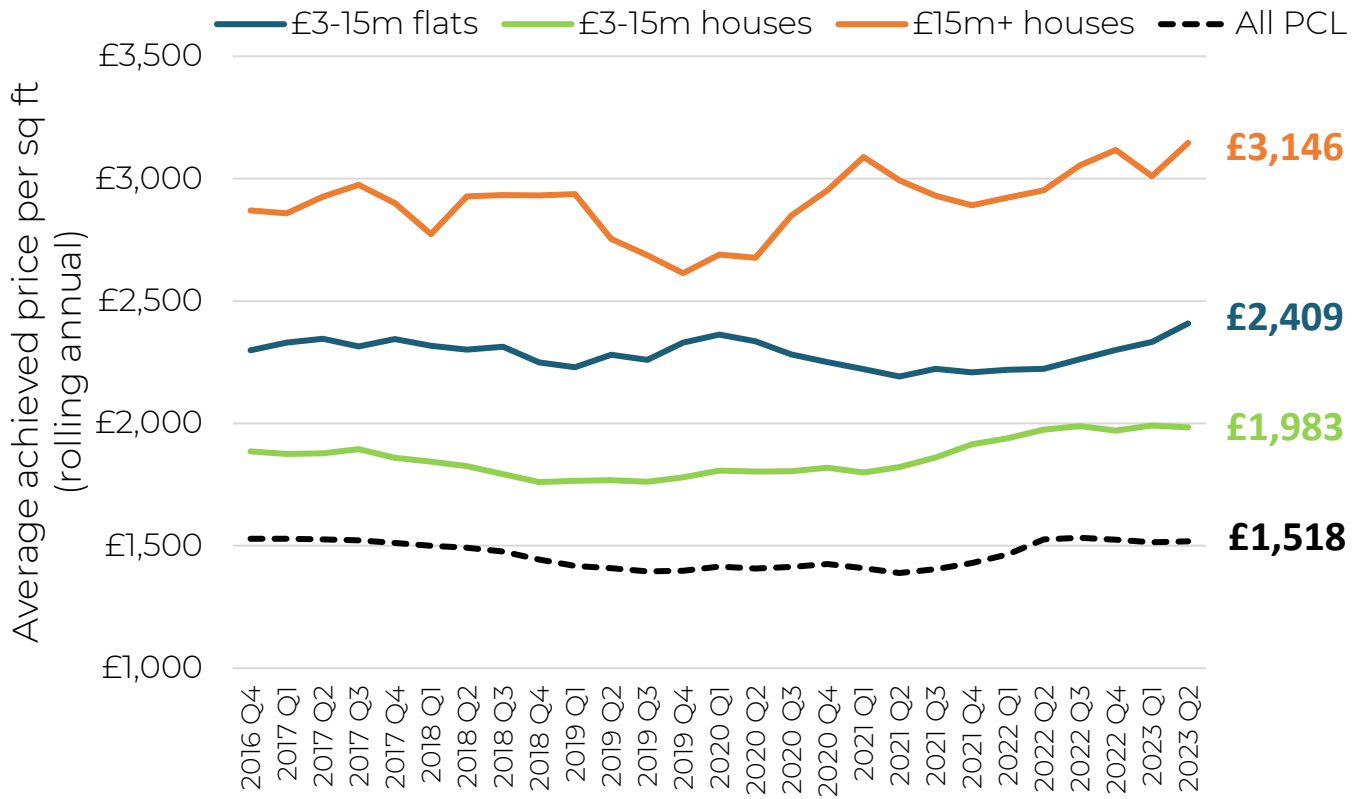


- London is a global city with market participants from all over the world.
- Nominal price movements in sterling therefore do not necessarily reflect the effective price for buyers holding wealth in other currencies.
- This chart shows the effective price movements of PCL property in a range of major currencies.
- Even in the most 'expensive' currency, Japanese Yen, prime London homes are around 8% below their 2015 peak, compared to -1.4% in sterling. In US dollars the equivalent figure is -26%.

Source: LonRes, Yahoo Finance

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

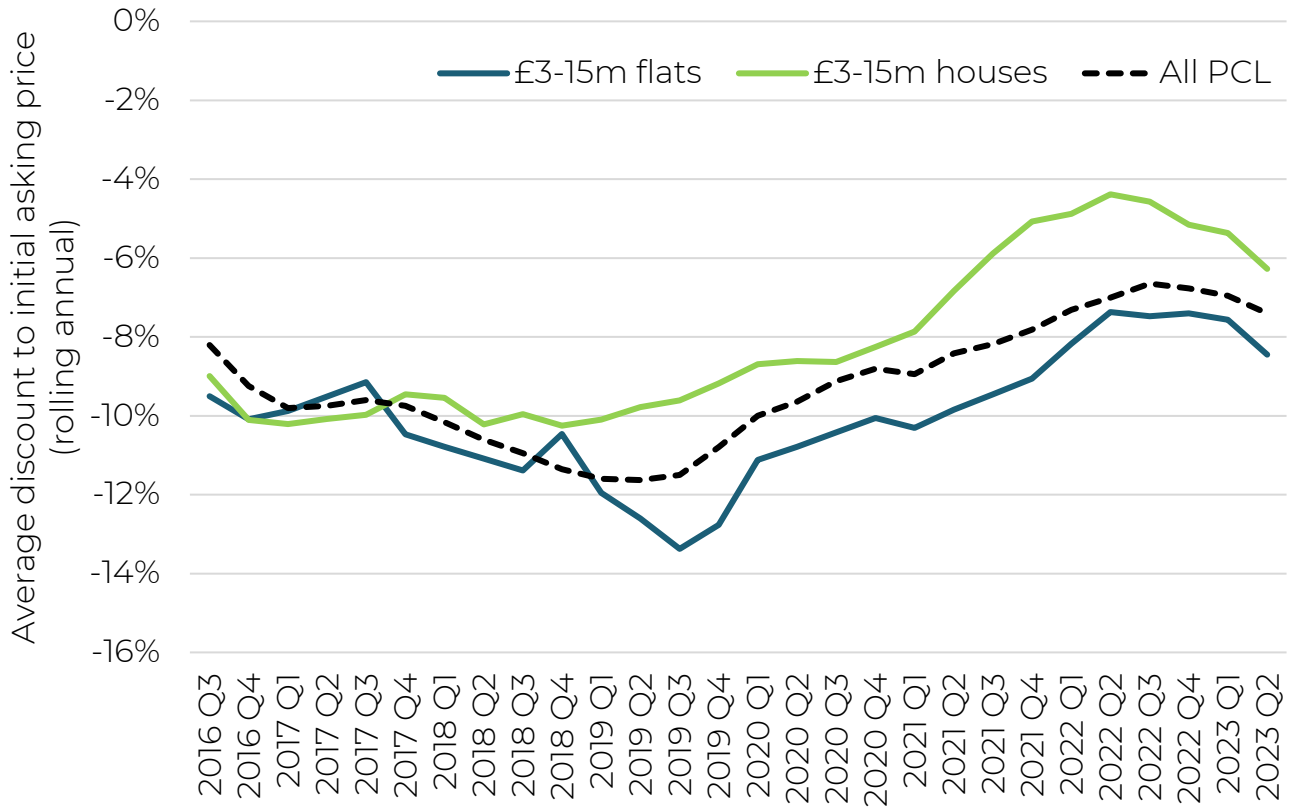
Achieved £ per sq ft by year



Source: LonRes

- On an annual basis, achieved values for PCL overall saw a 1% fall in Q2 (£1,518 vs £1,526 in Q2 2022).
- In the higher price bands the gap between flat and house values widened for the fourth quarter in a row (after closing for the previous nine). £3-15m flat values were up 8% compared to a year earlier with £3-15m houses unchanged.
- £15m+ houses were up by 7% annually (but this is a smaller sample and more volatile).
- Over the past five years, the changes in £ per sq ft values are as follows:
  - +5% for £3-15m flats
  - +9% for £3-15m houses
  - +7% 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 value of sales agreed since 2015 compared to the opinion-based indices.

Average Discount to Asking Price

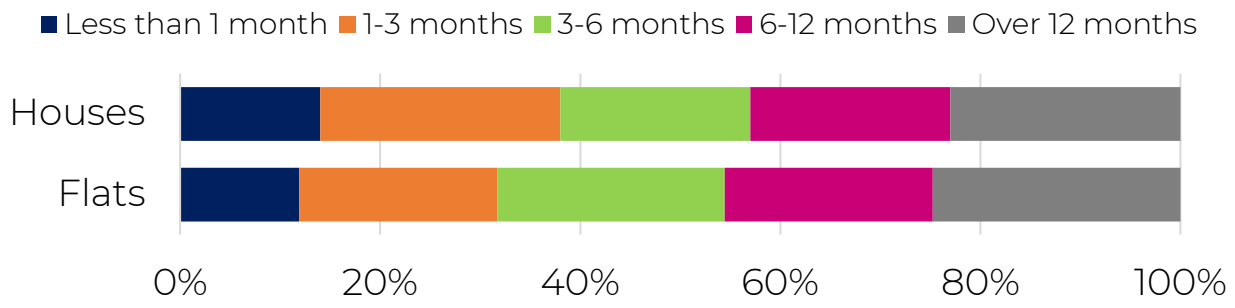


Source: LonRes

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

- Average discounts across PCL increased in Q2 to 7.4%, from 7.0% in Q1. This is the third consecutive quarterly increase.
- In the £3-15m markets, discounts for flats increased to 8.5%, and house discounts also increased, to 6.3%.
- The difference in average discounts between flats and houses in the £3-15m band was 2.2 percentage points, down from a peak of 4.0 at the end of 2021.
- The recent increases in average discount size reflect weaker buyer sentiment and market uncertainty, but discounts remain below longer-term trend levels.

Time on the Market



47.6%

Almost half of properties have been discounted

16.5%

Around 1 in 6 are currently under offer

+5.7%

Stock levels are higher than one year ago

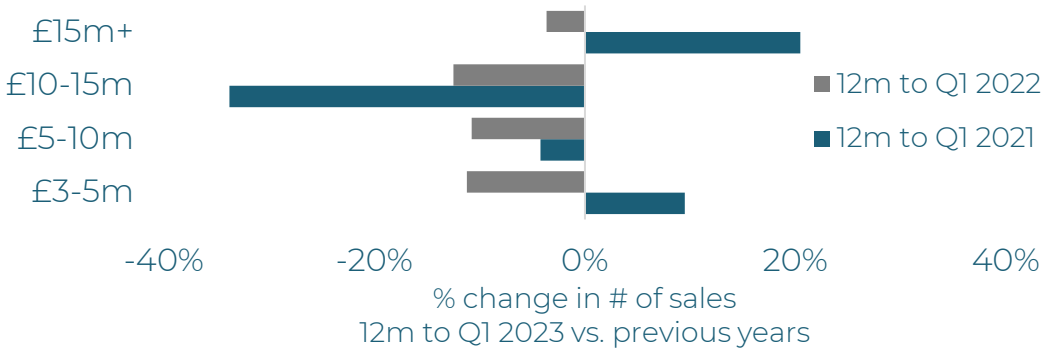
- For current listings in PCL*, 45% have been on the market for over 6 months (43% for houses; 46% for flats).
- This data indicates an average time on the market of around 7.3 months for houses and 7.9 for flats.
- Stock levels rose slightly on an annual basis, by 5.7%. This is partly due to slowing sales volumes and higher levels of new instructions compared to recent levels.

Source: LonRes, data for Q2 2023 only

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

Depth of Market

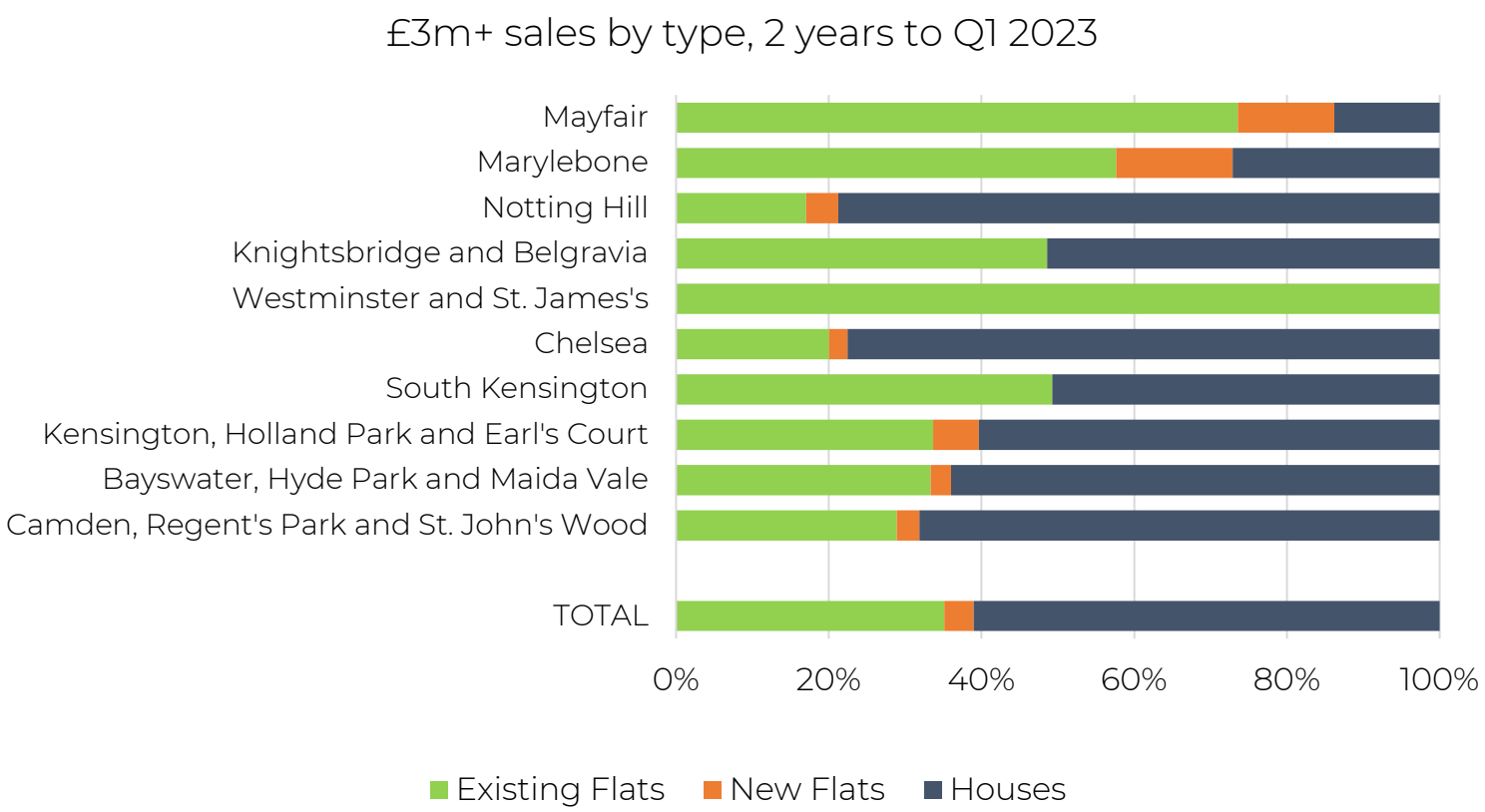
Price band	Existing flats	New flats	Houses*
£3-4m	133	5	142
£4-5m	49	1	74
£5-6m	29	2	60
£6-7m	17	2	48
£7-8m	5	1	35
£8-9m	13	2	16
£9-10m	6	0	13
£10-12.5m	4	0	25
£12.5-15m	9	0	11
£15-17.5m	2	0	20
£17.5-20m	6	0	3
£20-25m	3	0	6
£25-30m	4	0	3
£30-40m	1	0	3
£40-50m	0	0	0
£50m+	1	1	0
TOTAL	282	14	459



- The table shows £3m+ sales volumes by price band in the 12 months to Q1 2023, according to Land Registry completions data. A comparison to the trends in the two previous years is shown in the chart.
- Activity over the most recent 12 months is lower at all price points relative to a year earlier.
- * 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

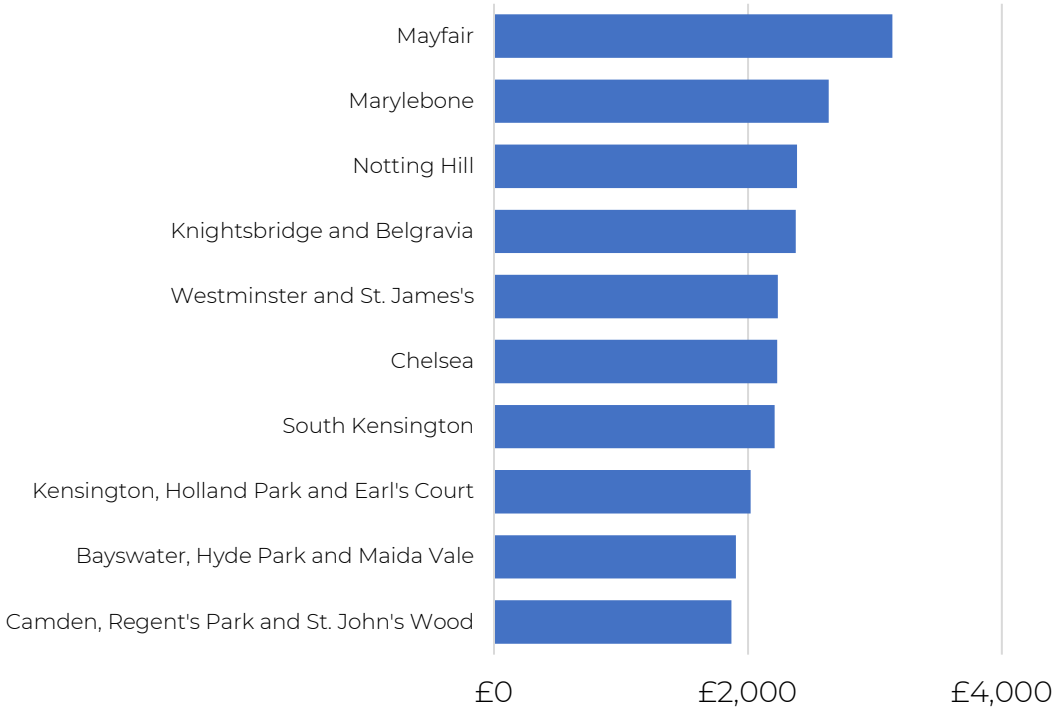


- New build homes have accounted for 4% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 61% to 39%.
- Mayfair and Marylebone had the highest proportions of new build activity over this period.

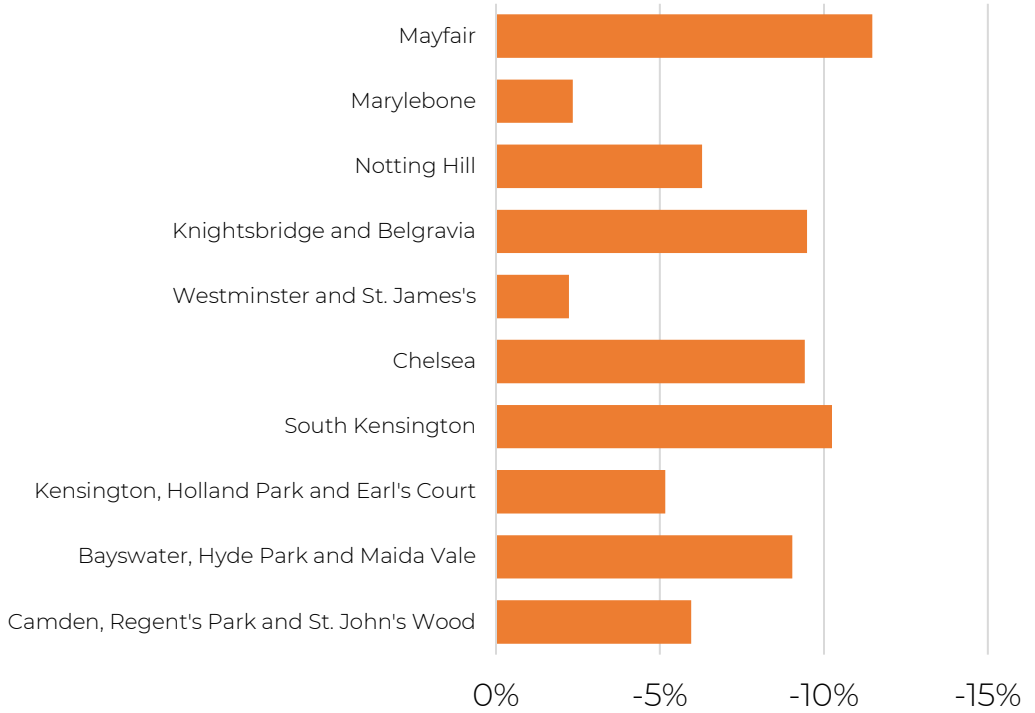
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq ft

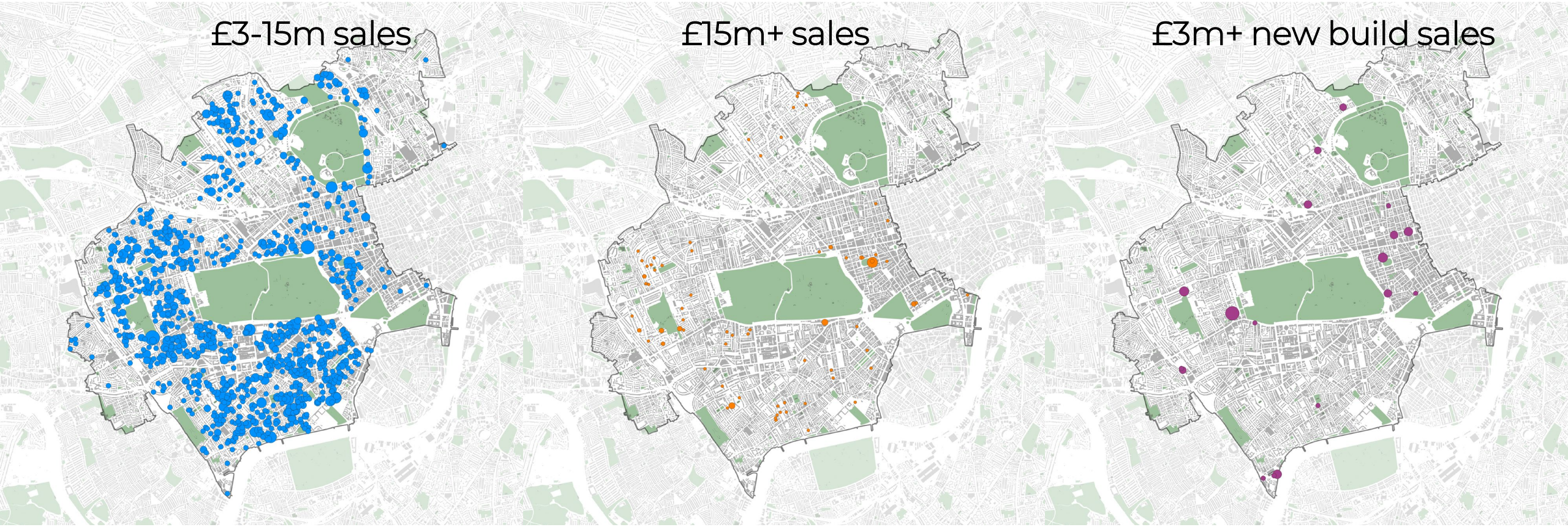


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q2 2023

Activity Maps



Source: OS OpenData, HM Land Registry

Notes: Size of dot = # of sales. All recorded sales Apr 2021 to Mar 2023. First two maps pre-owned only.

Forecast Summary

- There was again little change in the house price forecasts in Q2, despite the increased volatility in the financial markets. Knight Frank and Savills both referred to their existing forecasts in recent market commentary and indicated that they did not require updating.
- For Knight Frank, this means a 3% fall this year in PCL, no growth in 2024, and subdued growth in 2025 to 27 for a five year total increase of 8.1%, the least positive of our three forecasters. Their mainstream London and UK figures are even more negative, at 2.5% cumulative growth over five years.
- Savills are generally more positive for the full five year horizon, expecting a 2% drop for PCL this year but a recovery to +13.5% in total. Their mainstream UK forecast is for 6.2% cumulative growth over five years despite a 10% fall this year. Mainstream London is more negative, with -12.5% in 2023 contributing to a 1.7% fall over five years.
- JLL's forecasts are also unchanged, and they remain the most positive of our sample. While they also expect mainstream London values to fall this year, the reduction is much smaller at 4%, with a strong recovery over subsequent years. Values in PCL are expected to avoid falls, with 2.5% growth forecast for 2023 and further rises each year to 2027 for a five year total of almost 20%.
- With house price growth expectations low and inflation currently high, it is important to note that all the quoted figures are nominal. Even if inflation falls back, many of these forecasts are for prices falling in real terms.

Forecast Summary

	Agent	*Last updated*	2023	2024	2025	2026	2027	*5 year total*
Prime Central London	Savills	*Apr 2023*	-2.0%	2.0%	5.0%	4.0%	4.0%	**13.5%**
	Knight Frank	*Mar 2023*	-3.0%	0.0%	3.0%	4.0%	4.0%	**8.1%**
	JLL	*Nov 2022*	2.5%	3.0%	3.5%	4.0%	5.0%	**19.3%**
Greater London (mainstream)	Savills	*Apr 2023*	-12.5%	-1.0%	2.0%	6.0%	5.0%	**-1..7%**
	Knight Frank	*Mar 2023*	-6.0%	-4.0%	3.0%	5.0%	5.0%	**2.5%**
	JLL	*Nov 2022*	-4.0%	2.5%	4.0%	5.0%	6.0%	**13.9%**

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

Risks and Outlook

Positive

Market showing resilience

The PCL market looks quite resilient based on the Q2 data. Activity is lower than it was through 2021 and 2022 but not that low compared to historical trends, and values appear to be relatively stable (in nominal terms – with inflation high they are of course falling in real terms).

There are still some buyers and sellers out there wanting to get deals done and this is keeping the market moving, despite a lot of negative news and commentary surrounding the housing market and economy in general.

Forced sellers unlikely

Lower transaction levels compared to recent quarters are likely in the near term but the outlook for values in PCL is more uncertain, with less consensus among forecasters. One possible outcome is that prices remain broadly static, despite lower activity and higher interest rates.

This is due to PCL being a very discretionary market, where many vendors don't have to sell so are less inclined to reduce asking prices or accept discounts. Buyers also tend to have a lot of equity so are less constrained by rising borrowing costs, further supporting values.

Negative

Buyers 'wait and see'

Buyer demand may take a while to pick up again as the uncertain economic situation continues and is combined with the countdown to the next General Election (expected in late 2024). With current polls pointing to a Labour government, some potential buyers may be put off by thoughts of a 'mansion tax' or other policies seen as unfavourable to prime property.

With forecasts generally indicating price falls, it is not surprising that most buyers are adopting a 'wait and see' approach.

Stubborn inflation

The key cause of the UK's economic uncertainly is inflation stubbornly staying high, contrary to most forecasts expecting it to be closer to the 2% target by now (CPI in the 12 months to June was 7.9%).

This has led to the Bank of England raising their base rate 14 times in a row, which has then fed into higher mortgage rates. This continues to weaken sentiment around the housing market, even for cash buyers in PCL, who are less directly affected.