

JUSTIN MASON

VALUATION • CONSULTANCY

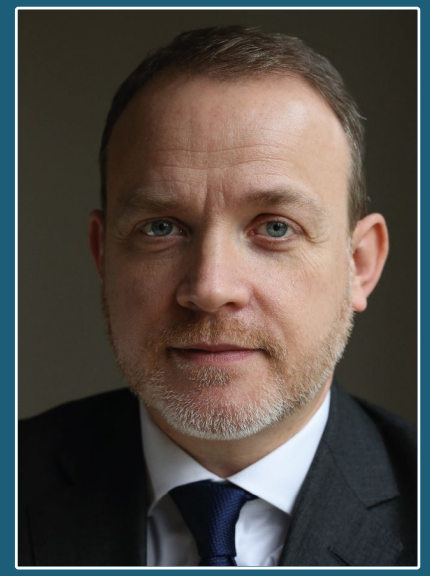
Prime Central London Update February 2024

Key Highlights

- Prime Central London* sales activity decreased in Q4 2023, with 144 transactions recorded by LonRes**. This is 10% down on final sales volumes in Q3 2023.
- There were 640 sales above £3m in 2023, 9% lower than the 12 months to September 2023 but 26% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Values fell slightly in Q4. The agents' opinion-based indices and the LonRes actual achieved prices both recorded small falls. The value gap between houses and flats on a £ per sq ft basis closed in Q4, following five quarters of growing.
- Average discounts in PCL increased in Q4, the fifth quarterly rise after three years of falls. Broken down by property type, average discounts for prime houses remain smaller than for flats (7.2% vs. 9.0%), with the gap growing compared to Q3.
- All our tracked agents have released new forecasts since our last update. There is a consensus for low growth in PCL this year before improved conditions lead to values rising by just under 20% over the five years to 2028. For mainstream London, the consensus is for five-year growth of around 15%, with Knight Frank most positive about prospects for 2024.

*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.

JUSTIN MASON
VALUATION • CONSULTANCY



Contact:
Justin Mason

Director
Justin Mason
Valuation Consultancy

+44 (0) 20 3409 0894
justin@justinmasonvaluation

Market Background

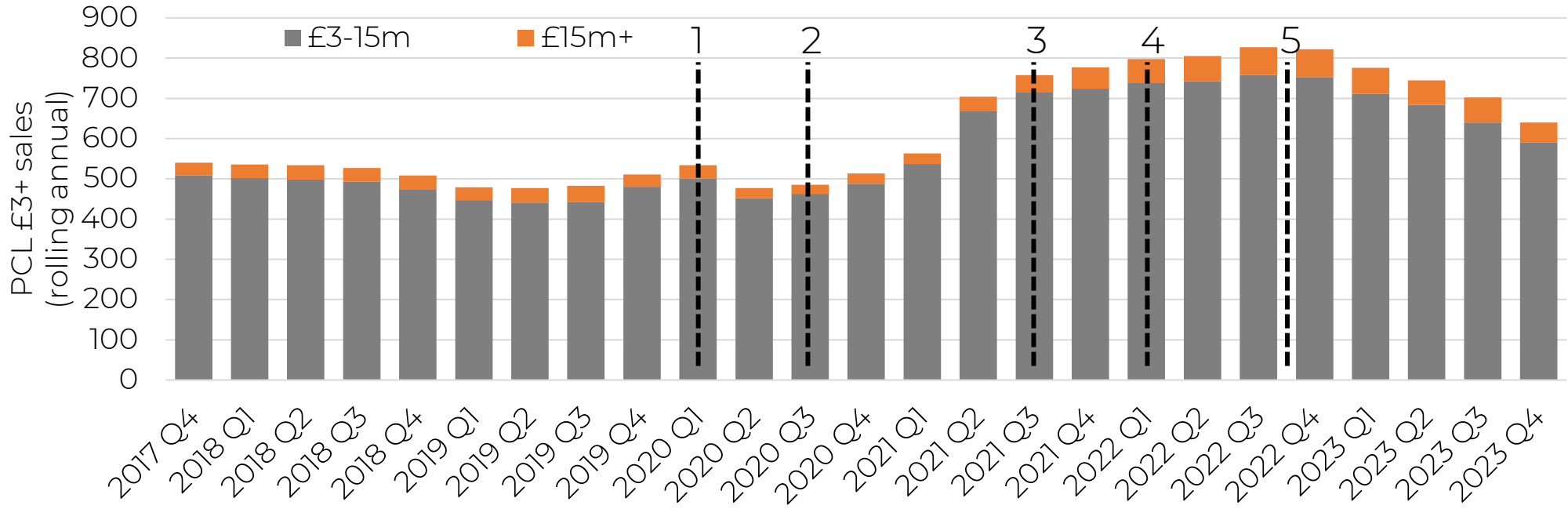


Area	Transactions (12m to Sep-23)	Compared to last Q (12m to Jun-23)
England	604,000	Down 92,000 (-13%)
London	74,000	Down 12,000 (-14%)
Camden, Westminster and RBKC	5,800	Down 800 (-12%)
PCL £3m+	640	Down 140 (-18%)

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



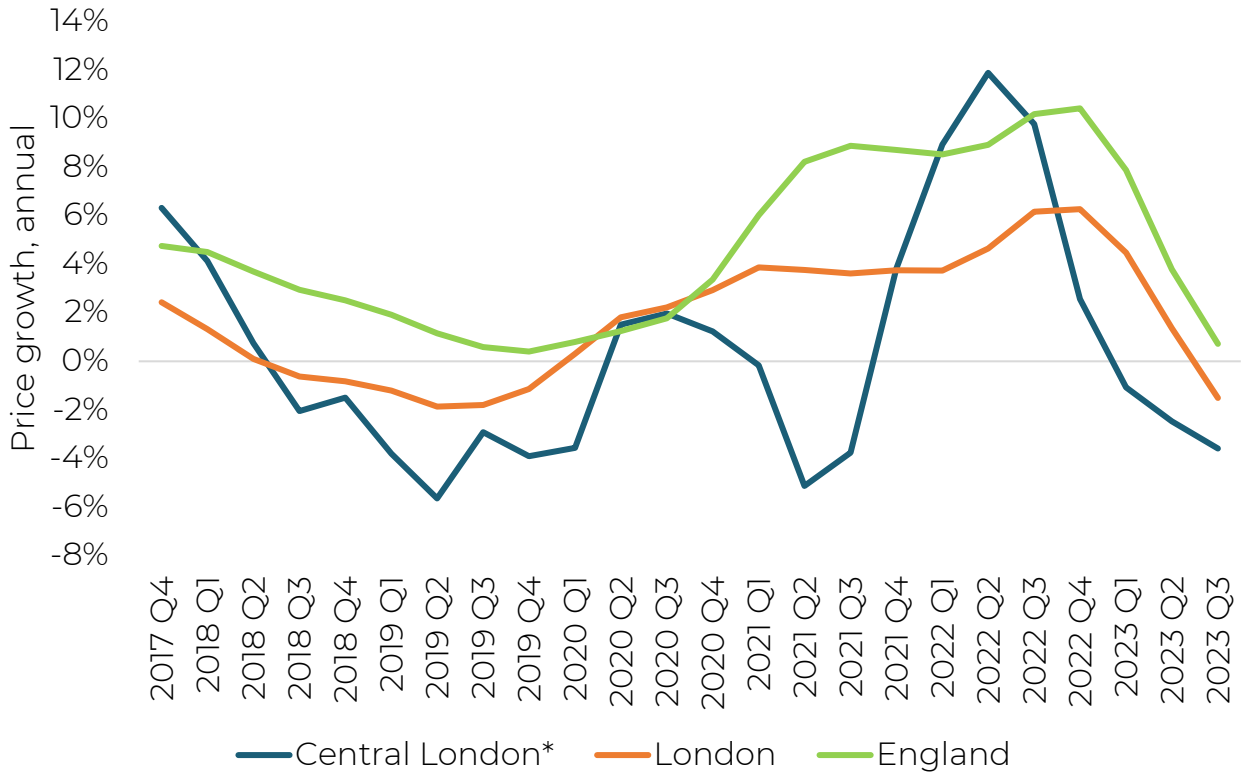
Source: LonRes

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 Q4 2023 decreased compared to Q3. This overall change was driven by falls in the volume of sales across both the prime (£3-15m) and super prime (£15m+) markets.
- In Q4 there were 144 transactions across both price bands, 10% fewer than Q3 2023 and also 30% lower than Q4 a year ago, based on LonRes data.
- There were 590 recorded prime sales and 50 super prime in 2023. The total figure of 640 transactions is 9% down on those in the 12 months to September 2023. Despite these falls, the current level is 26% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.
- Activity in 2023 was low compared to 2021 and 2022 but the wider context is more positive. For the 2023 calendar year, the volume of £3m+ PCL sales was the fourth highest out of the past ten.

House Price History

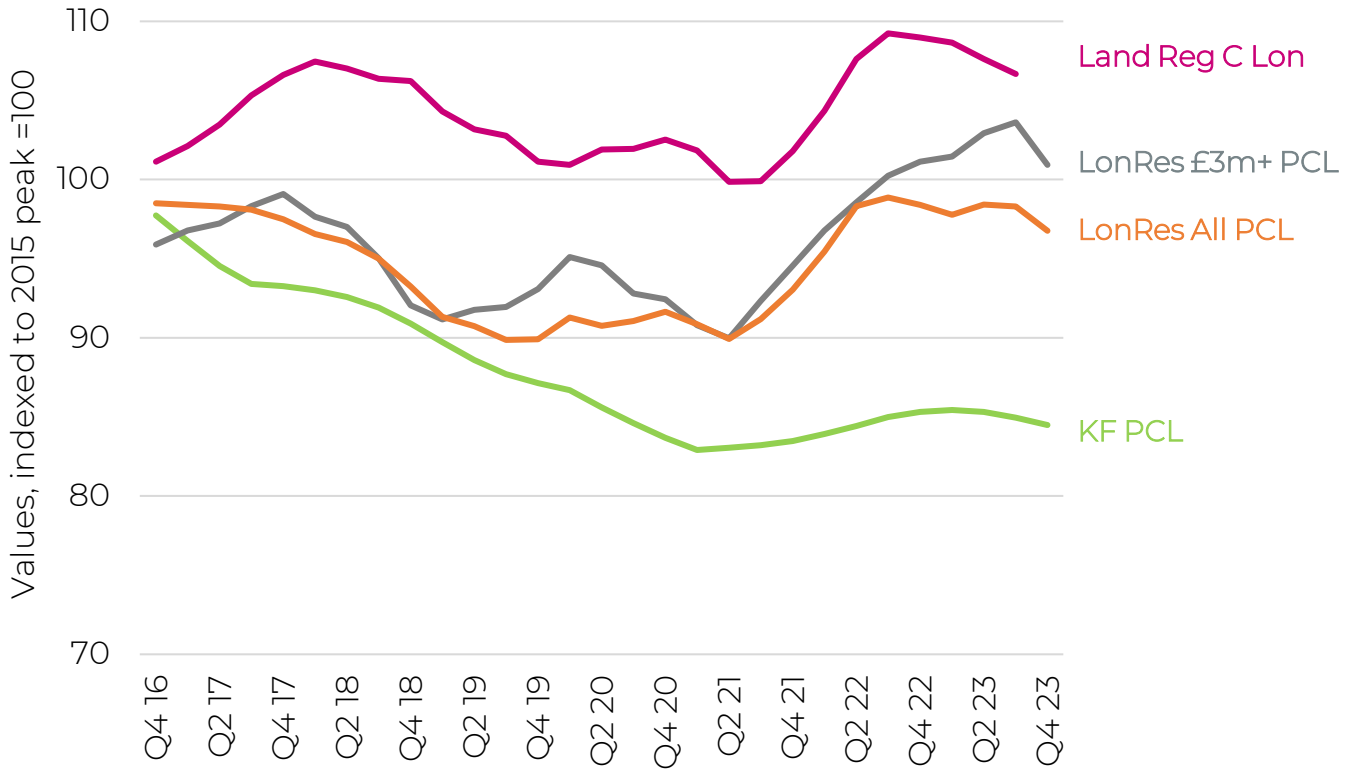


Source: ONS UK HPI (data smoothed, 6 months)

**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 slowed in Q3 to 0.7% annual (from a revised 3.8% in Q2), according to the ONS index for England.
- Prices fell in central London boroughs* in Q3, with an annual change of -3.6%, down from -2.5% in the previous quarter.
- Growth for the wider London region continued to lag the national average, with the annual change falling to -1.5%.

Achieved Prices and Agents' Indices



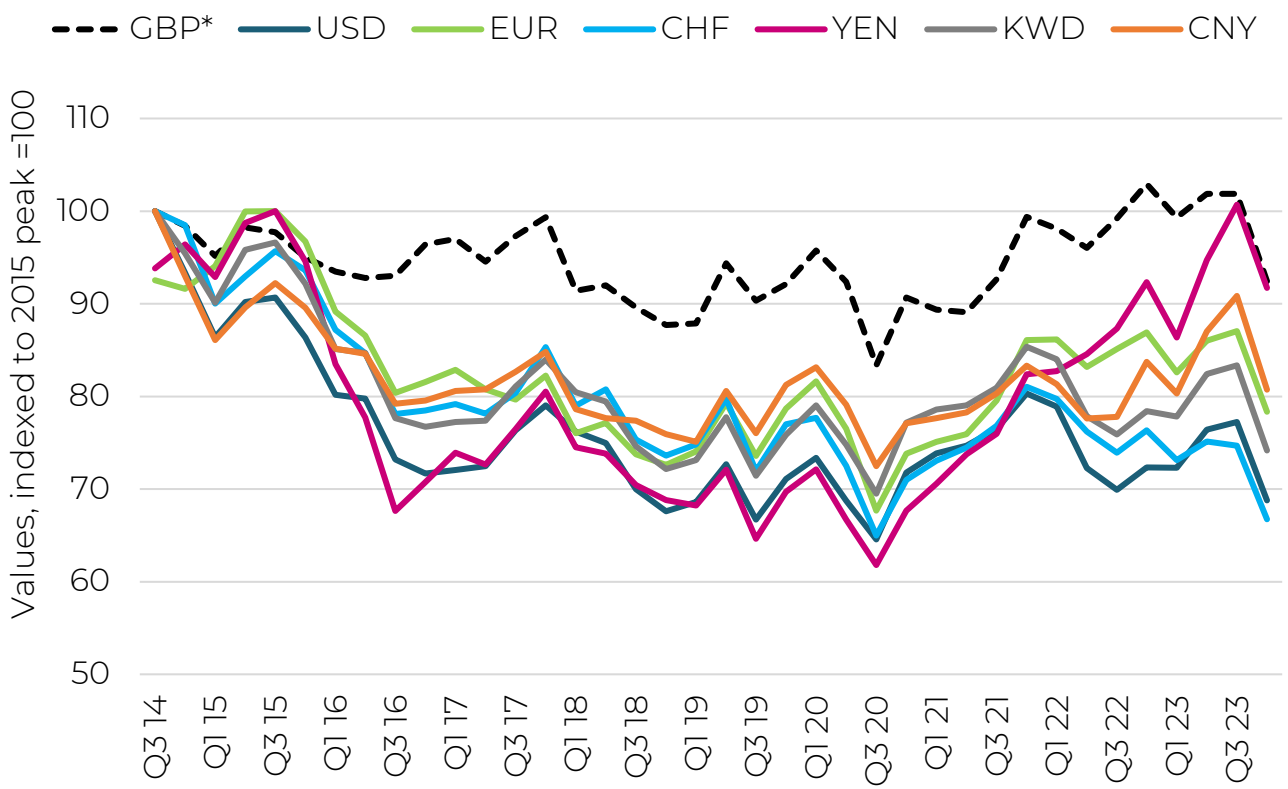
Source: Land Registry, Knight Frank, LonRes

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 slightly falling values in Q4.
- 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. The £3m+ band has outperformed the wider 'all PCL' figure for the past two years.

Pricing in Other Currencies

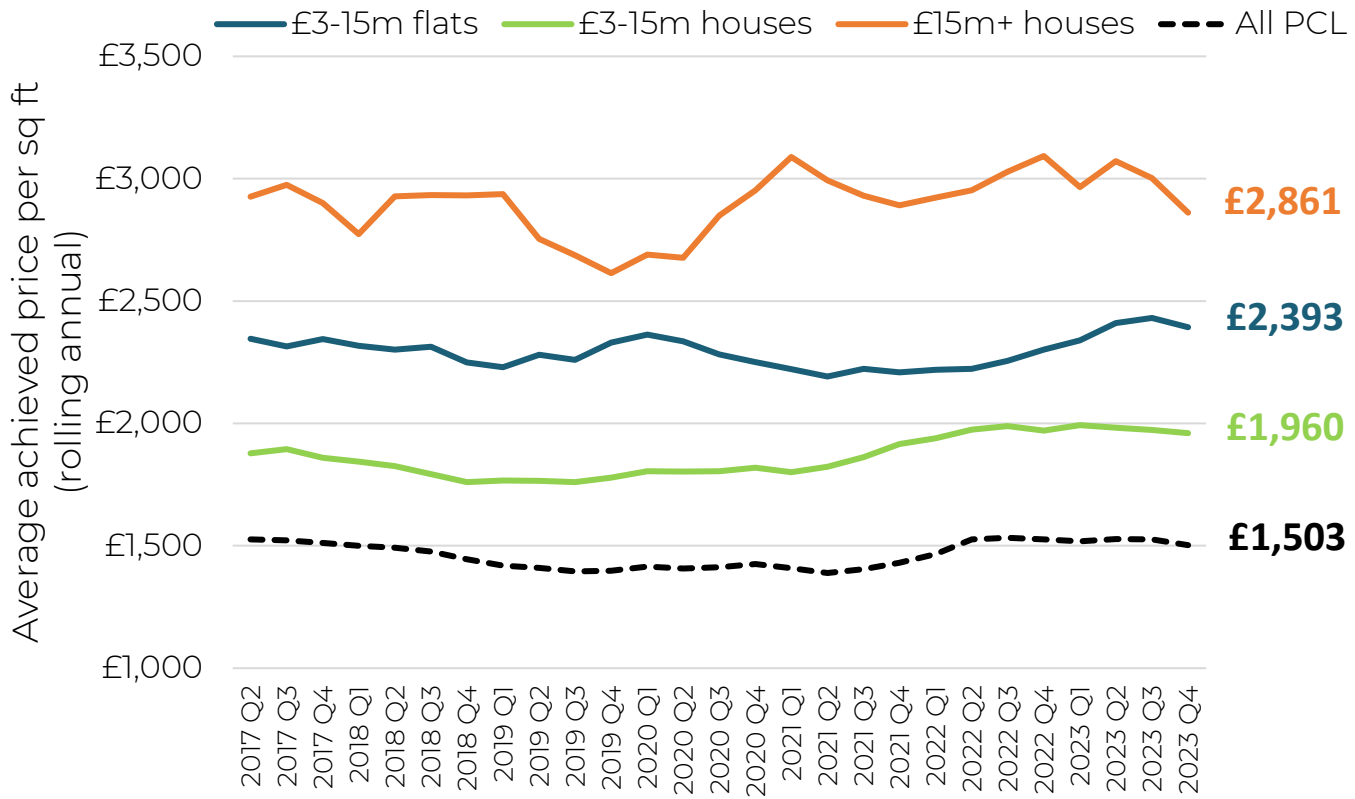


- London is a global city with market participants from all over the world.
- Nominal price movements in sterling therefore do not necessarily reflect the effective price for buyers holding wealth in other currencies.
- This chart shows the effective price movements of PCL property in a range of major currencies.
- In Sterling and Yen values are just under 10% below the 2015 peak, whereas the effective 'discount' over that same period for a buyer in Swiss Francs is -33%.

Source: LonRes, OECD, Yahoo Finance

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

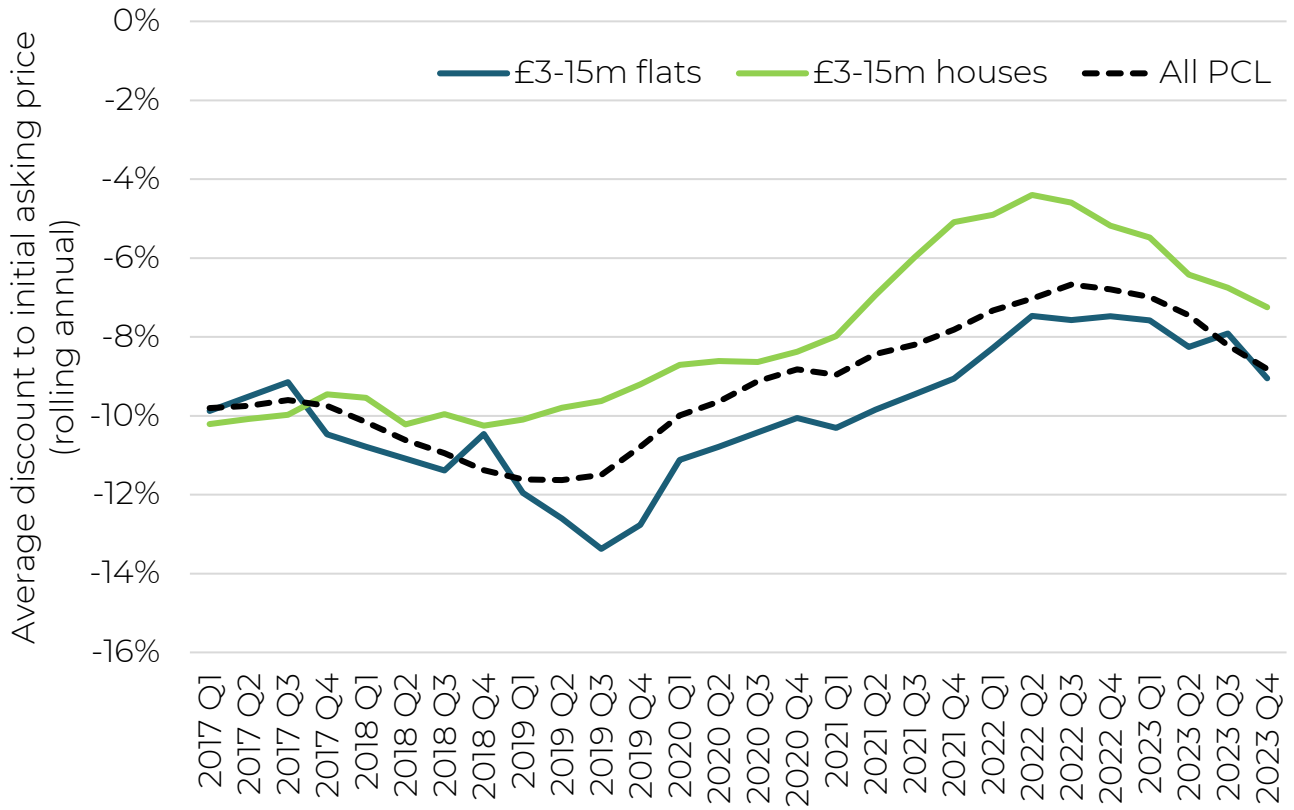
Achieved £ per sq ft by year



Source: LonRes

- On an annual basis, achieved values for PCL overall saw a 1% fall in Q4 (£1,503 vs £1,526 in Q4 2022).
- In the higher price bands the gap between flat and house values shrank, following five quarters of widening. £3-15m flat values were up 4% compared to a year earlier with £3-15m houses down 1%.
- £15m+ houses were down 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:
  - +6% for £3-15m flats
  - +11% for £3-15m houses
  - -2% for £15m+ houses
  - +4% 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

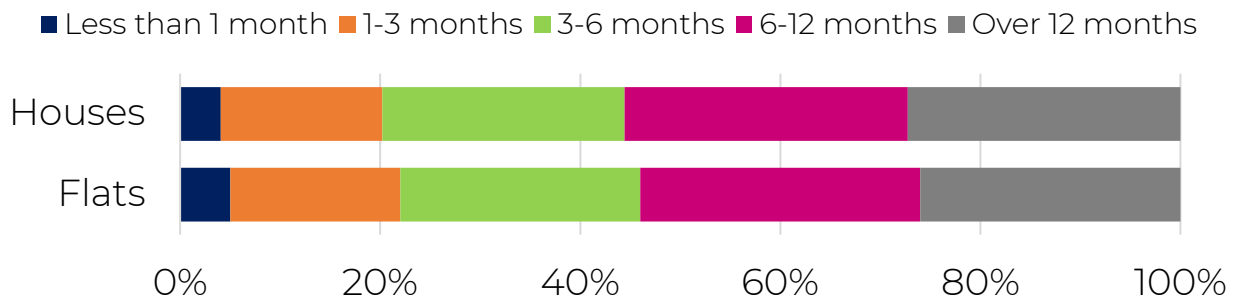


Source: LonRes

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

- Average discounts across PCL increased in Q4 to 8.8%, from 8.2% in Q3. This is the fifth consecutive quarterly increase.
- In the £3-15m markets, discounts for flats increased to 9.0%, and house discounts increased to 7.2%.
- The difference in average discounts between flats and houses in the £3-15m band was 1.8 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.

Time on the Market



50.6%

Just over half of properties have been reduced

14.3%

Around 1 in 7 are currently under offer

+11.2%

Stock levels are higher than one year ago

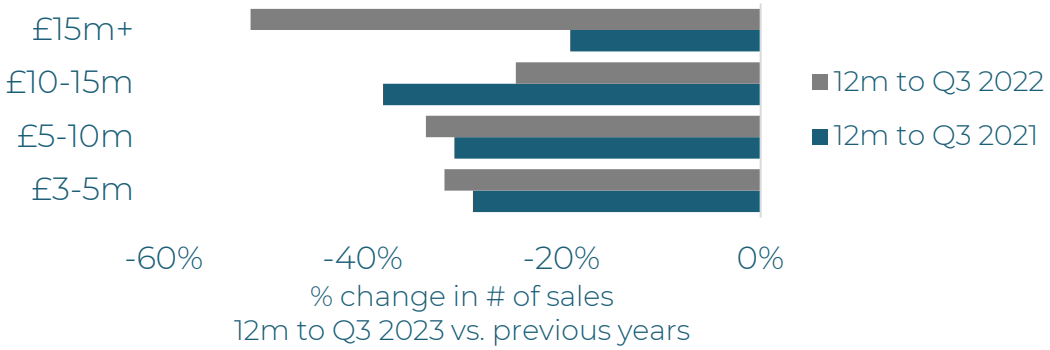
- For current listings in PCL*, 54% have been on the market for over 6 months (55% for houses; 54% for flats).
- This data indicates an average time on the market of around 8.8 months for houses and 8.6 for flats.
- Stock levels rose on an annual basis, by 11.2%. This is due to slowing sales volumes and higher levels of new instructions compared to recent levels.

Source: LonRes, data for Q4 2023 only

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

Depth of Market

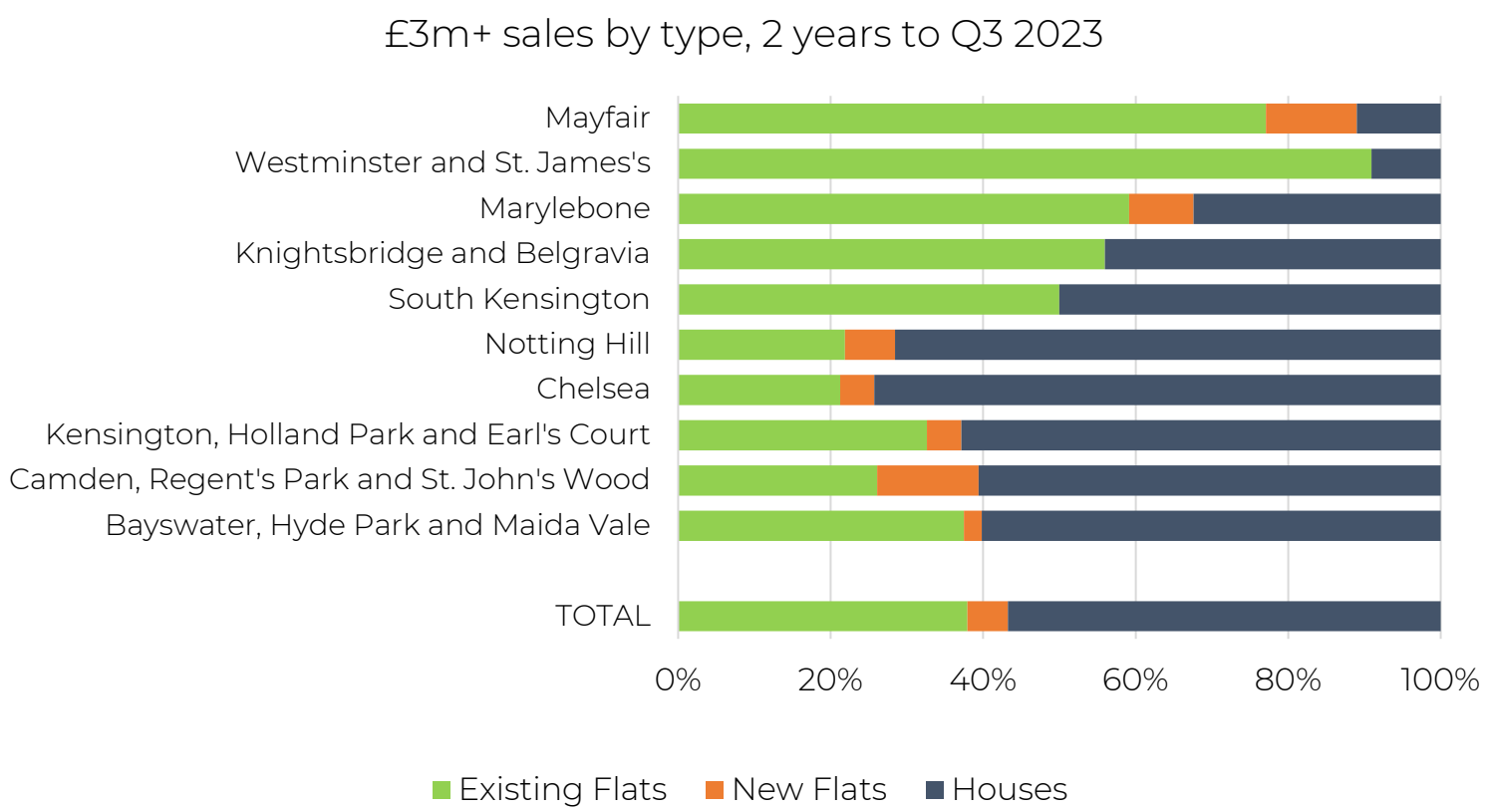
Price band	Existing flats	New flats	Houses*
£3-4m	102	17	114
£4-5m	49	9	48
£5-6m	25	2	49
£6-7m	15	6	40
£7-8m	10	2	17
£8-9m	11	1	12
£9-10m	6	0	13
£10-12.5m	7	1	23
£12.5-15m	8	1	9
£15-17.5m	4	1	10
£17.5-20m	0	0	4
£20-25m	1	0	5
£25-30m	1	0	2
£30-40m	3	0	5
£40-50m	0	0	2
£50m+	0	0	0
TOTAL	242	40	353



- The table shows £3m+ sales volumes by price band in the 12 months to Q3 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 past years.
- * 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

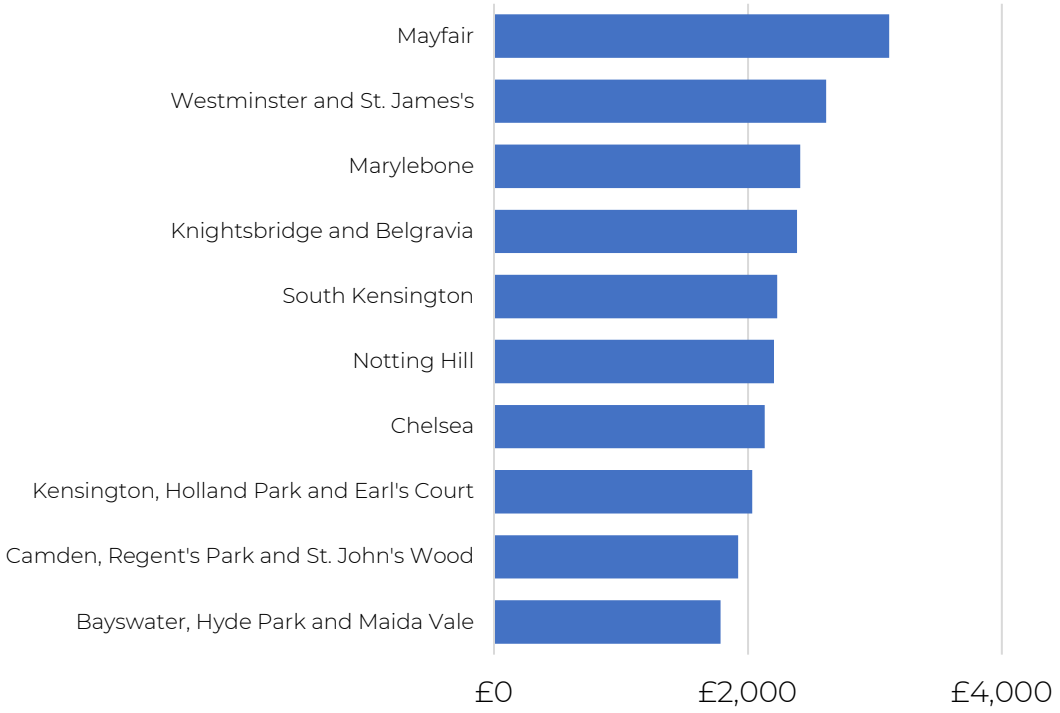


- New build homes have accounted for 6% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 57% to 43%.
- Mayfair and Marylebone had the highest proportions of new build activity over this period.

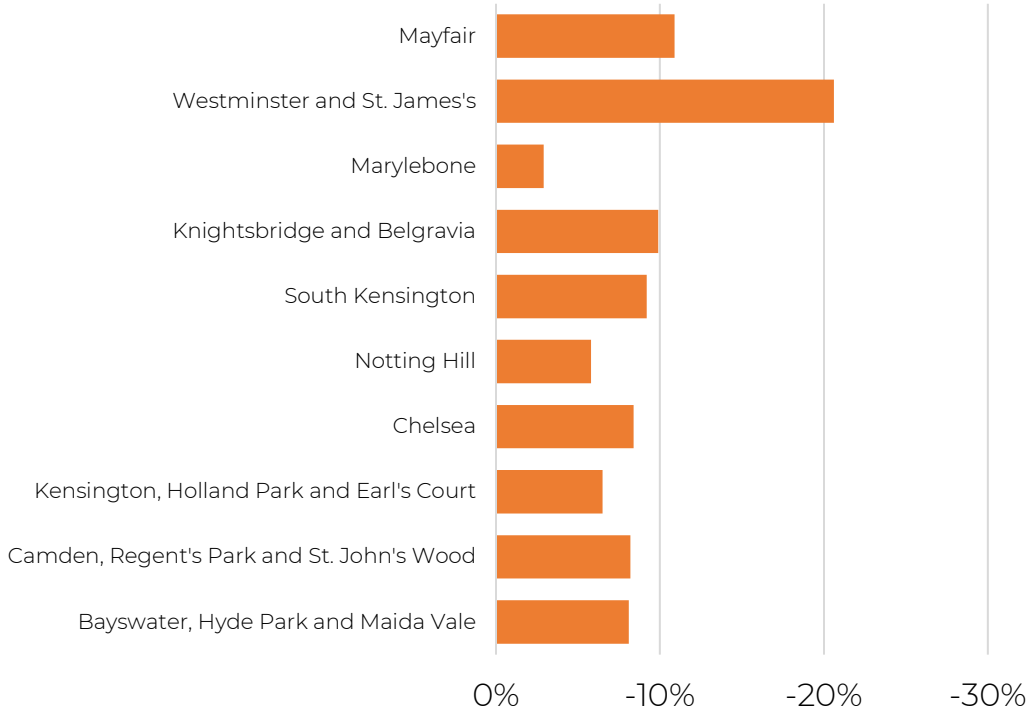
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq ft

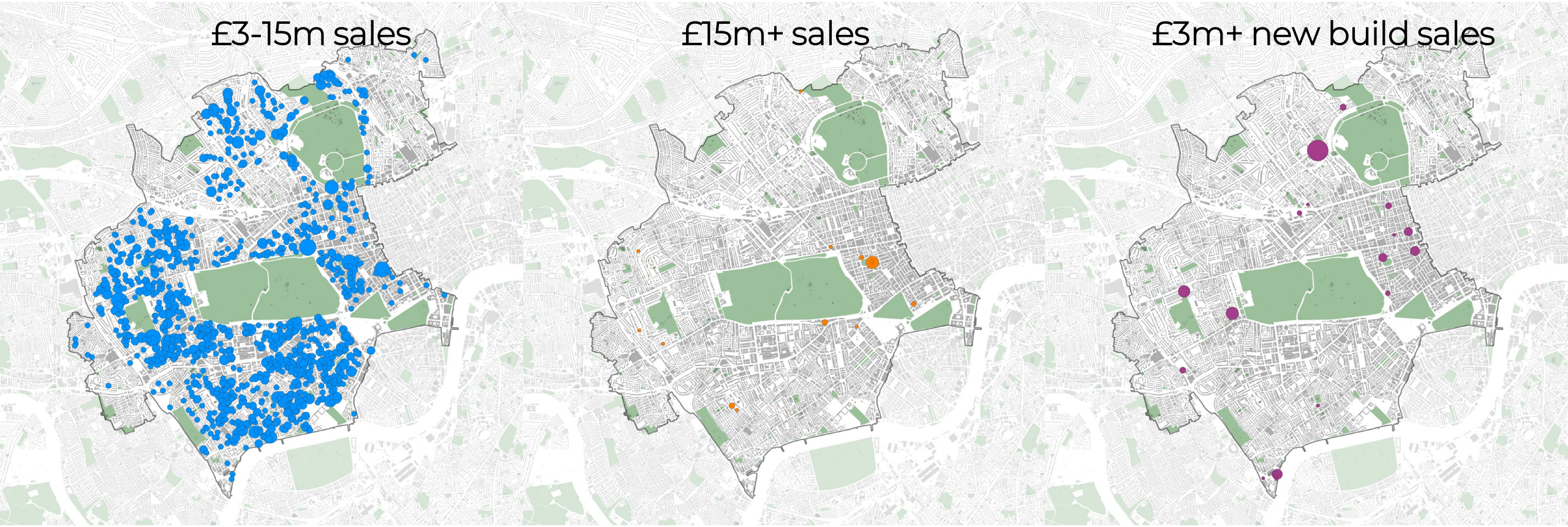


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q4 2023

Activity Maps



Source: OS OpenData, HM Land Registry

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

Forecast Summary

- As is typical, Q4 was forecasting season as agents and research teams looked ahead to the new year and beyond. All our tracked forecasters have published full new sets of figures covering the 2024 to 2028 period since our last update.
- In November, Savills set out new prime and mainstream forecasts. They expect PCL to be flat this year then grow strongly from 2025 to 2028, with a total rise over five years of 18.7%. Mainstream London is more negative for 2024, with a 4% fall expected, before it recovers to post a total 13.9% rise over the five years to 2028.
- JLL also released new figures in November. They also expect no change in PCL values this year, followed by strong growth, resulting in a five year rise of 19.8%. They forecast a small fall in mainstream London values (-2%) in 2024, again with a strong recovery over the final four years taking total growth to 15.2%.
- Knight Frank produced the most recent update, waiting until early January to publish new figures. But they are broadly in line with the consensus for PCL, expecting a slow 2024 (1% price growth) followed by stronger rises from 2025 to 2028. This results in a forecast of 18.1% growth over the full five years. Their mainstream London figures set out a steady growth trajectory over all five years, totalling an expected rise of 15.9%.
- The overall trend of all the forecasters is for relatively low growth in the short term, as the economic and political volatility of recent years continues to impact market sentiment. This makes way for higher levels of growth in the later years of the forecast period.

Forecast Summary

	Agent	*Last updated*	2024	2025	2026	2027	2028	*5 year total*
Prime Central London	Savills	*Nov 2023*	0.0%	3.5%	6.0%	4.0%	4.0%	18.7%
	Knight Frank	*Jan 2024*	1.0%	3.0%	5.0%	4.0%	4.0%	18.1%
	JLL	*Nov 2023*	0.0%	4.0%	4.5%	4.5%	5.5%	19.8%
Greater London (mainstream)	Savills	*Nov 2023*	-4.0%	2.0%	4.0%	6.0%	5.5%	13.9%
	Knight Frank	*Jan 2024*	2.0%	2.0%	3.0%	4.0%	4.0%	15.9%
	JLL	*Nov 2023*	-2.0%	2.5%	4.5%	4.5%	5.0%	15.2%

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

Risks and Outlook

Positive

Still a safe haven

The fundamental attractions of prime central London don't really change, even if the political or economic drivers impacting the market turn negative. The global geopolitical outlook includes various conflicts and expectations for GDP growth in many countries are low.

But London's position as a stable environment for investment and business remains and could even be enhanced by volatility around the world, supporting the PCL property market. This appeal is enhanced by the lack of price growth over much of the past decade.

Budget 'giveaways' could boost market

Improvements in the public finances have given the Chancellor enough headroom to consider cutting taxes in the upcoming Budget (6th March), with the intention of improving the prospects for economic growth.

There has been speculation that this could even include a cut to inheritance tax. Such measures could boost sentiment in the market this year.

Negative

Economy stable but lacking growth

Inflation continued to fall in late 2023 and the financial markets expect a series of base rate cuts this year. But economic growth has been weak and the UK is close to being in recession, unlikely conditions for strong housing market performance.

For investors, while prime property yields have improved thanks to the rental growth seen over the past three years, so have risk free rates and the returns on other investments.

Political risks on the horizon

While a tax-cutting budget might be a short-term positive, the political outlook for the rest of the year is more mixed. A General Election is rarely good news for activity in the property market.

Labour are a long way ahead in the polls and have suggested they could bring in changes to the 'non-dom' regime and overseas SDLT surcharge that could be negative to prime property demand. While they have so far ruled out introducing new wealth taxes, with a big enough majority they may change their view on this.