

JUSTIN MASON
VALUATION • CONSULTANCY

PRIME CENTRAL LONDON UPDATE

FEBRUARY 2022



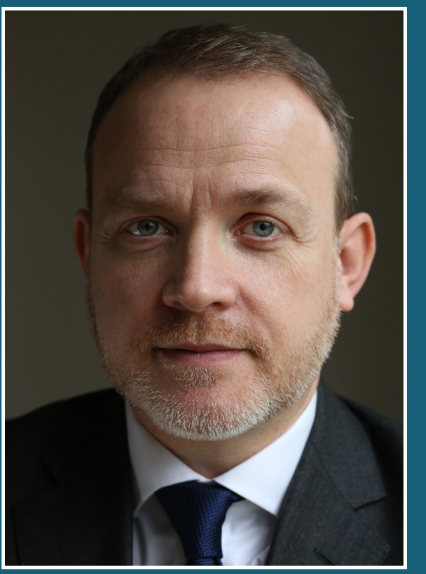
CANAL STREET RESEARCH

KEY HIGHLIGHTS

- Prime Central London* transactions rose again in Q4, with 194 recorded by LonRes**, compared to a final figure of 180 in Q3. This is 4% up on Q4 2020's level of activity.
- On an annual basis, there were 758 sales above £3m in 2021, 50% above the figure for 2020. While this comparison is impacted by a period of market closure during the initial lockdown, the volume of sales in 2021 is 49% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Both the opinion-based indices and completions-based data reported that prices increased over 2021, with competition amongst buyers created by strong demand and low levels of stock for sale. The trend of higher price bands and houses performing best continued.
- Average discounts continued to fall across PCL in Q4. Broken down by property type, average discounts for houses remain smaller than for flats (4.6% as opposed to 9.0%), but both categories have seen discounts shrinking over the past two years.
- The latest agents' forecasts are optimistic for PCL, with expectations of a very strong 2022, and five-year growth of over 20%. However, with inflation rising 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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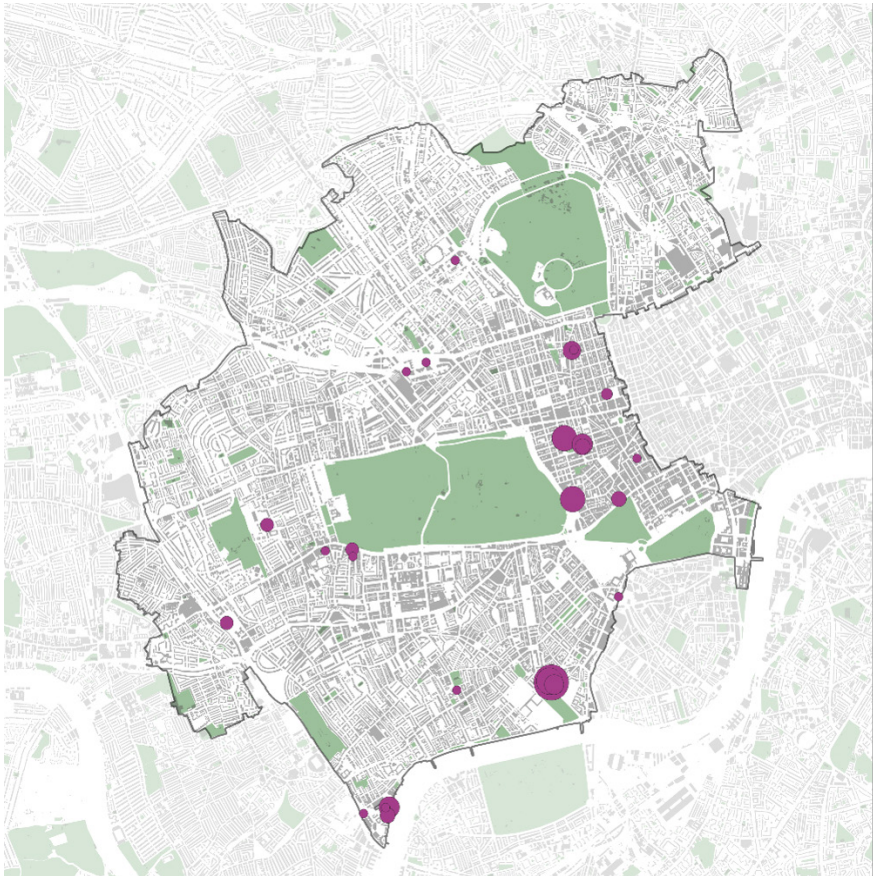


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MARKET BACKGROUND



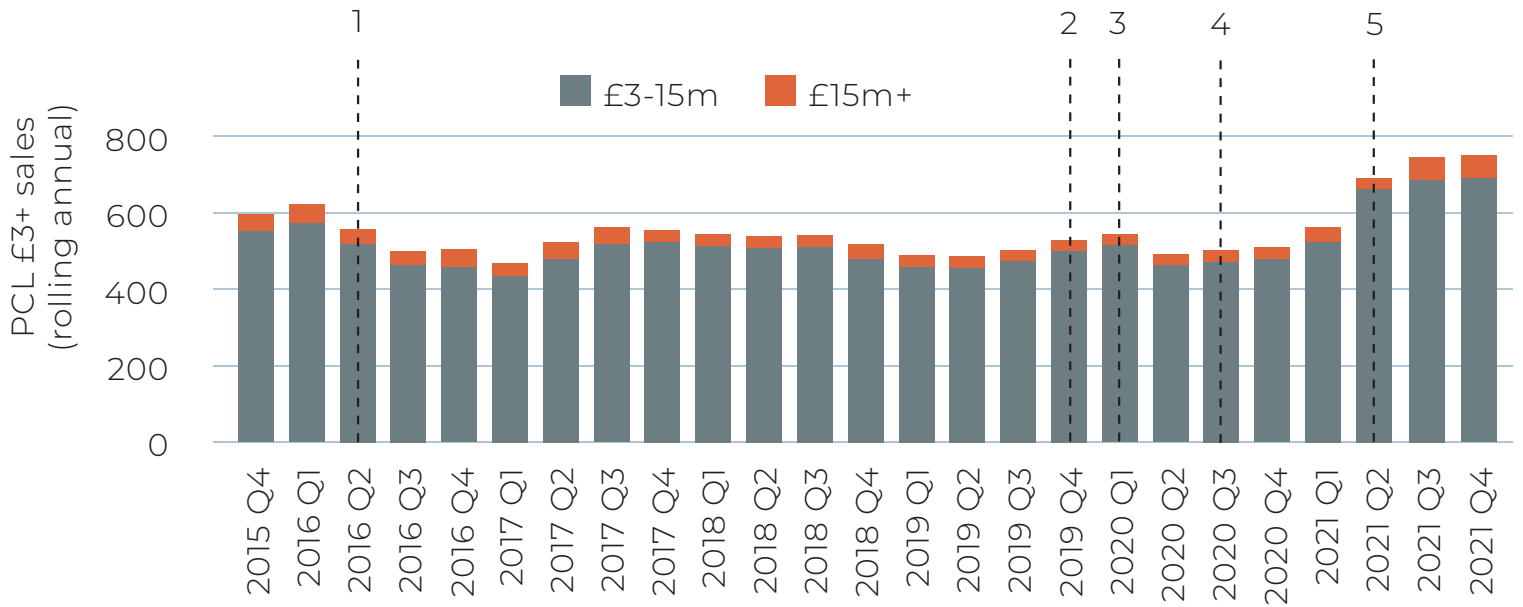
Source: OS OpenData

Area	Transactions (12m to Sep-2021)	Compared to last Q (12m to June)
England	836,000	Down 110,000 (-12%)
London	99,000	Down 15,000 (-13%)
Camden, Westminster and RBKC	6,200	Down 1,100 (-15%)
PCL £3m+	590	Down 110 (-16%)

Source: Land Registry Price Paid Data (figures rounded) note that 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	Dec 2019	Mar 2020	July 2020	Q2 2021
1: 3% SDLT surcharge and Brexit referendum	2: General election - Johnson majority	3: First Covid-19 lockdown starts	4: Stamp Duty holiday starts	5: Stamp duty holiday tapers down (ends in Q3)

- Sales activity in the £3m+ PCL market continued at a high level in Q4, with super prime (properties valued over £15m) transactions in particular, well above recent trends.
- Prime (properties valued in the £3-15m range) sales reached 700 for the calendar year, a slight dip compared to the 708 recorded in the year to Q3, based on LonRes data. Current activity remains almost 50% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.

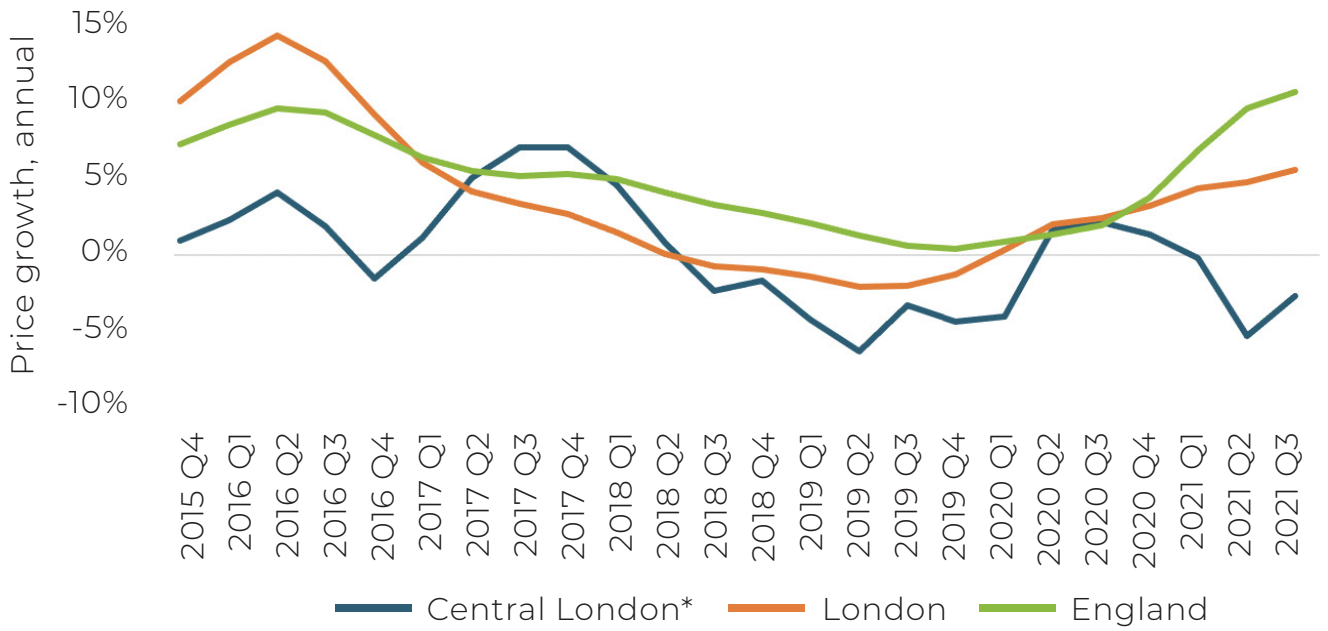
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TRANSACTION TRENDS

- In Q4 alone, there were 194 transactions – slightly above the 180 recorded in Q3, but lower than the 214 from Q2. These figures appear to confirm last quarter's expectation that the end of the Stamp Duty Land Tax (SDLT) holiday on 30th September 2021 would have a limited effect on activity in the £3m+ markets.

- GDP finally returned to its pre-pandemic level in November, but the emergence of the Omicron variant of Covid-19 led the government to introduce its 'Plan B' measures, with working from home where possible being the main restriction. Although this has been lifted once again, it has created further uncertainty in the potential path of the recovery of the wider London economy, with possible related impacts on buyer and vendor activity in the PCL market.

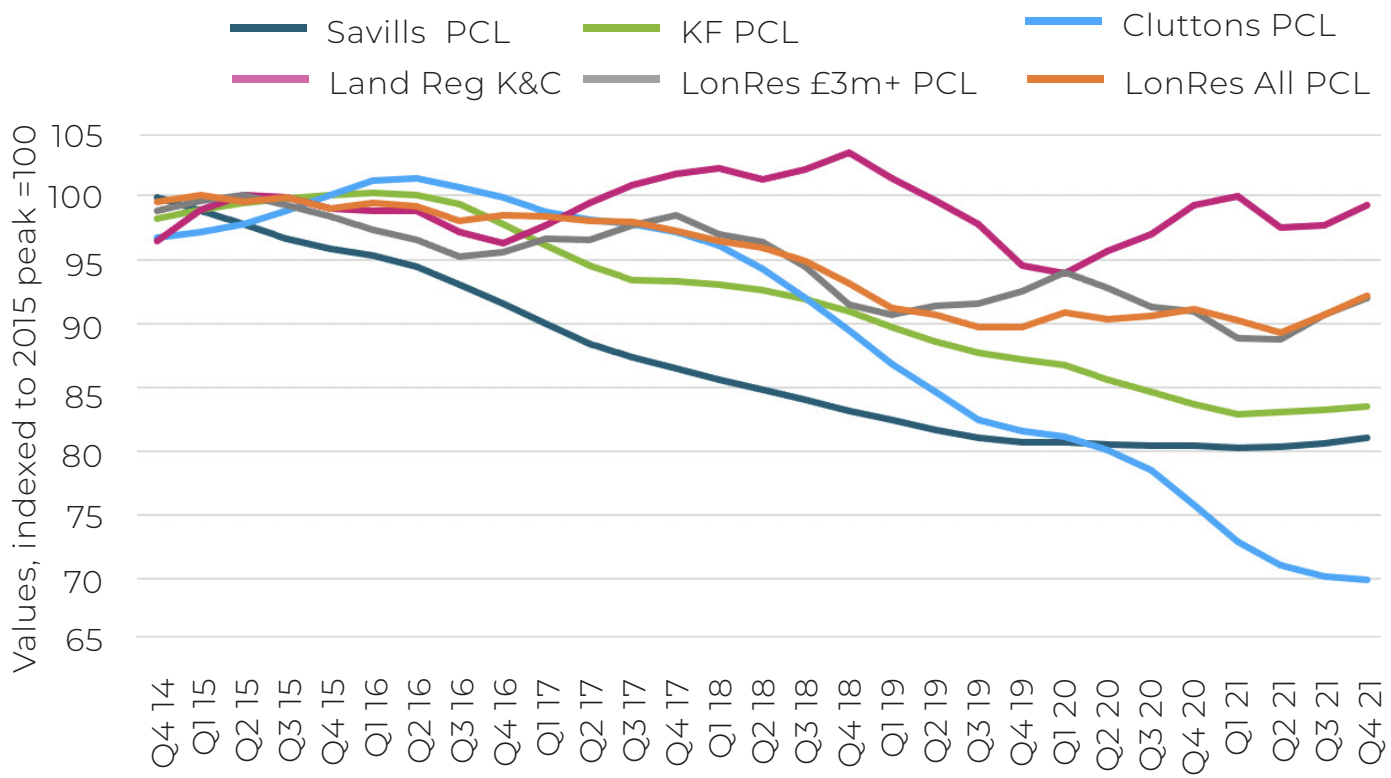
HOUSE PRICE HISTORY



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 continued their strong growth in Q3, with some indices suggesting double digit rises at a national level.
- Average values in the central London boroughs* were still registering annual falls in Q3, but smaller than in Q2: -2.4% compared to -4.7% according to the ONS index.
- Both regional (5.0%) and national (9.6%) average house price growth were significantly stronger over the same period.

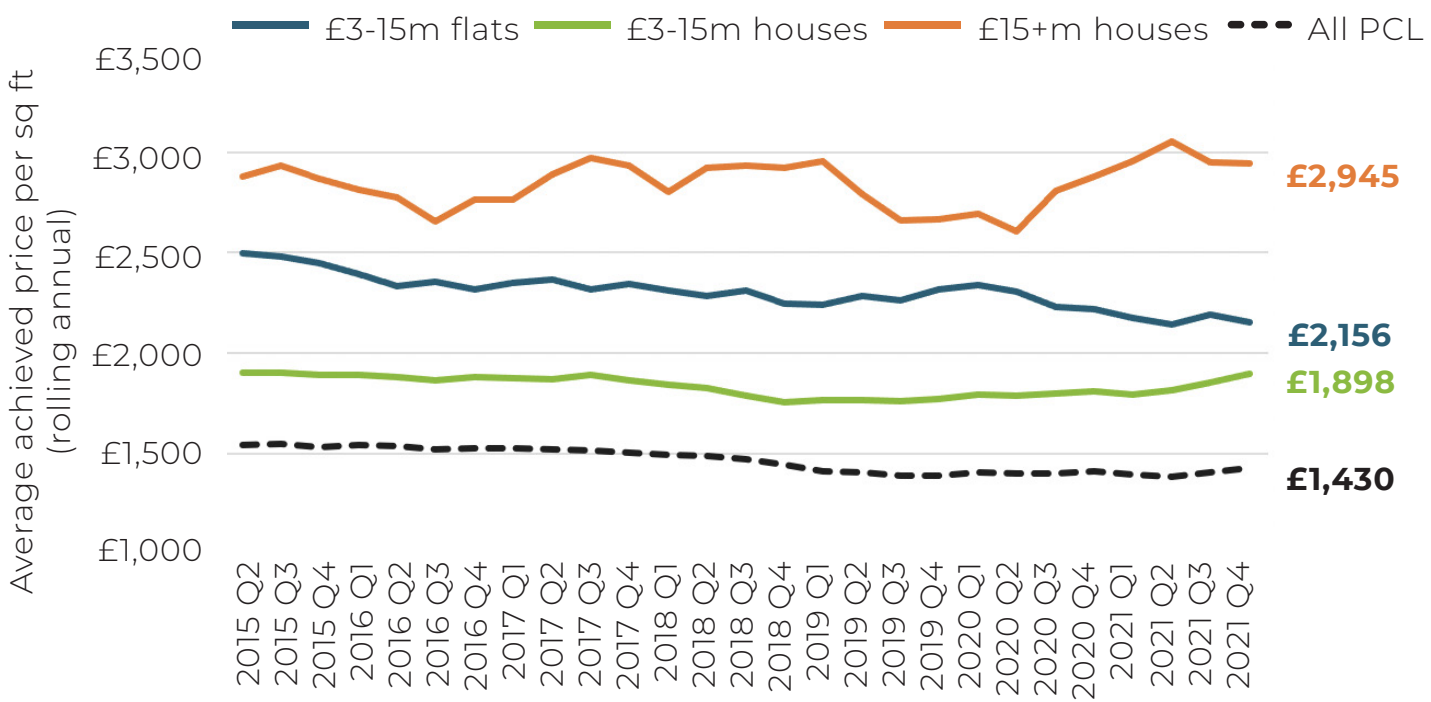
ACHIEVED PRICES AND AGENTS' INDICES



Source: Land Registry, Savills, Knight Frank, Cluttons, LonRes
All data 12-month smoothed

- 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 house prices. This index continues to show higher relative performance, with very little change in values since 2015.
- Savills and Knight Frank both reported values rising again in Q4, with larger houses continuing to be more in demand and driving price growth. The falls in Cluttons' index bottomed out in Q4.
- LonRes achieved £ per sq ft data is included on the chart for comparison. Their 'Winter Update' reported that achieved prices across PCL grew by 6.7% on an annual basis.

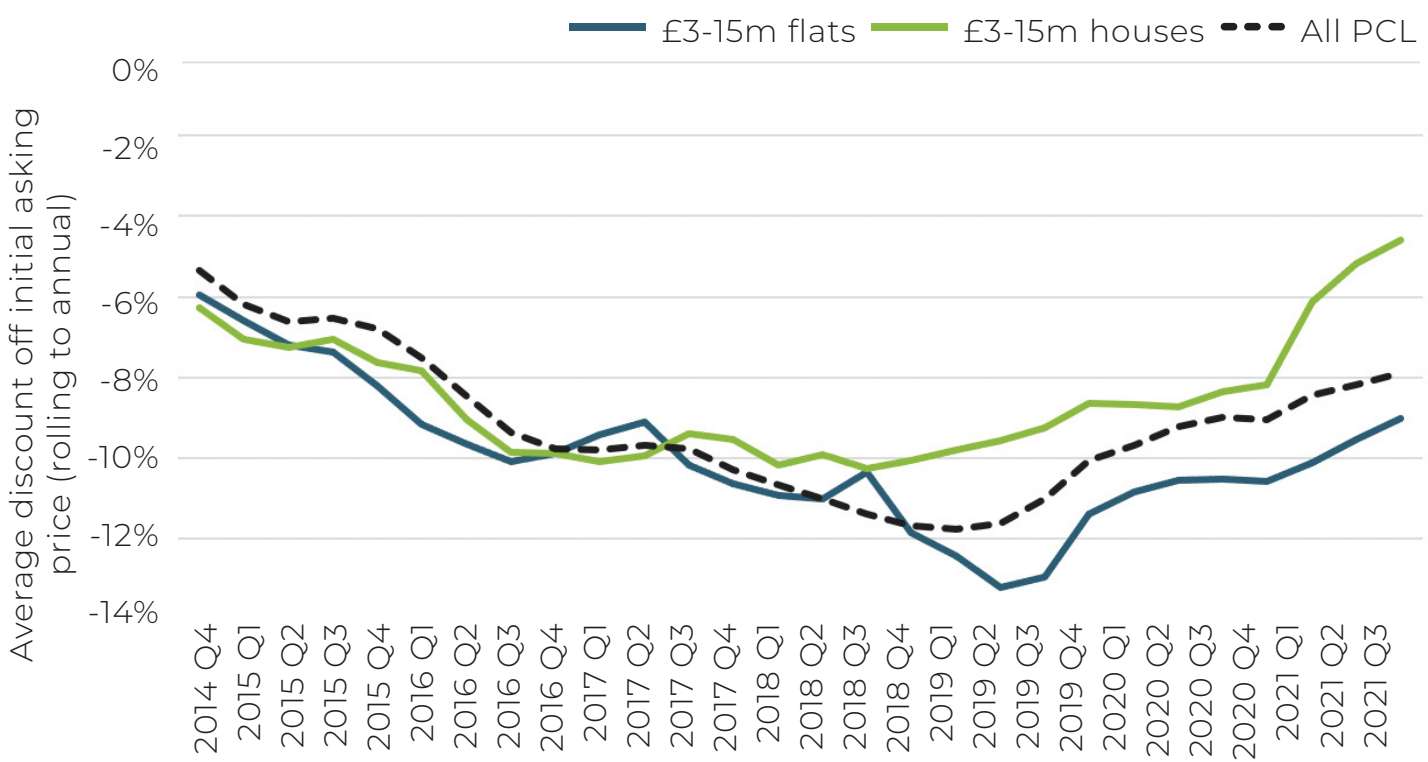
ACHIEVED £ PER SQ FT BY YEAR



Source: LonRes

- On an annual basis, achieved values for PCL overall saw a 1% rise (£1,430 in Q4 2021 vs £1,414 in Q4 2020), continuing the trend of little change over the past three years.
- In the higher price bands the gap between flat and house values continued to close, with £3-15m flat values down 3% compared to a year earlier and £3-15m houses up by 5%.
- £15m+ houses were also up by 2% (but this is a smaller sample and more volatile).
- Over the past five years, the changes in £ per sq ft values are as follows:
  - -7% for £3-15m flats
  - +1% for £3-15m houses
  - +7% for £15m+ houses
  - -6% 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.

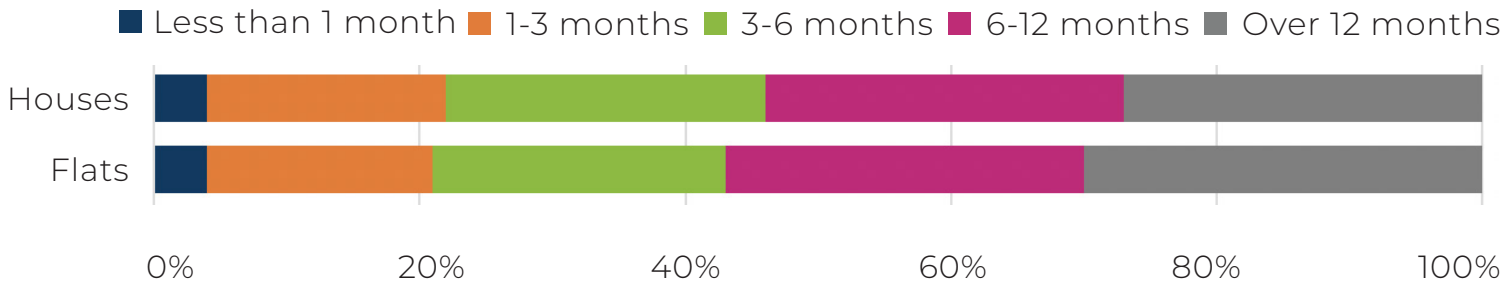
AVERAGE DISCOUNT TO ASKING PRICE



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

- Average discounts across PCL fell in Q4 to 7.9%, continuing the trend since 2019.
- In Q4 and in the £3-15m market, the level of discount to asking price decreased once again and for both houses and flats. Despite this, the difference in the average discounts between houses and flats in the £3-15m market grew to 4.4 percentage points.
- The average discount for £3-15m houses fell to 4.6%, the lowest for over seven years.

TIME ON THE MARKET



45.3%

Over 2 in 5 properties have been discounted

16.6%

Around 1 in 6 are currently under offer

-15.3%

Stock levels are lower than one year ago

- For current listings in PCL*, 57% have been on the market for over 6 months (54% for houses; 57% for flats).
- This data indicates an average time on the market of around 8.8 months for houses and 9.2 months for flats.
- Stock levels fell on an annual basis by 15.3%. While vendors were expected to return to the market in greater numbers in Q1, uncertainty around the Omicron wave of Covid-19 may have temporarily delayed this move again. Some vendors may also be holding back from listing until the summer to take advantage of further price growth.

Source: LonRes, data for Q4 2021 only
**Time on market data relates to PCL properties of all values – not available by price band*

DEPTH OF MARKET

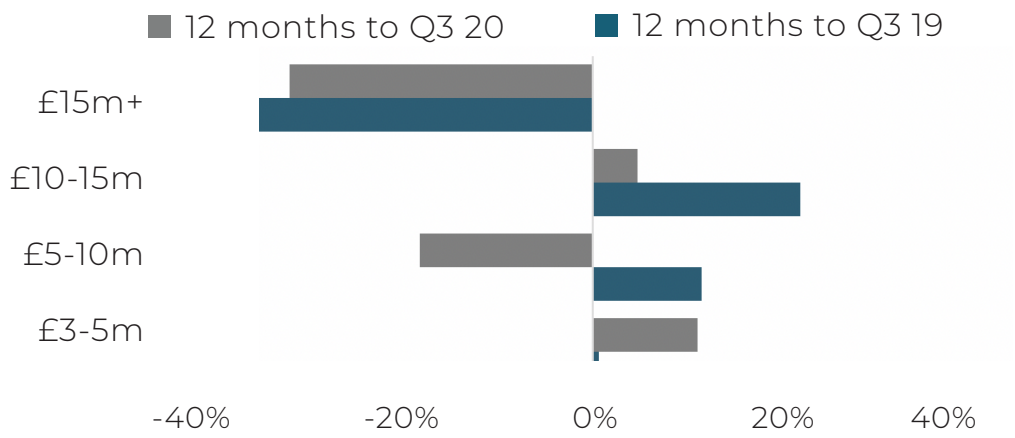
Price band	Existing flats	New flats	Existing houses	New houses
£3-4m	76	0	131	0
£4-5m	43	1	87	0
£5-6m	13	4	58	0
£6-7m	16	2	24	0
£7-8m	7	0	26	0
£8-9m	5	0	23	0
£9-10m	4	4	13	0
£10-12.5m	3	5	23	0
£12.5-15m	3	3	11	0
£15-17.5m	2	1	6	0
£17.5-20m	1	1	4	0
£20-25m	0	1	5	0
£25-30m	0	1	5	0
£30-40m	0	0	1	0
£40-50m	0	0	0	0
£50m+	1	0	0	0
TOTAL	**174**	**23**	**417**	**0**

Source: Land Registry Price Paid Data

- The table shows £3m+ sales volumes by price band in the 12 months to Q3 2021, according to Land Registry completions data. A comparison to the trends in the two previous years is shown in the chart.

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DEPTH OF MARKET

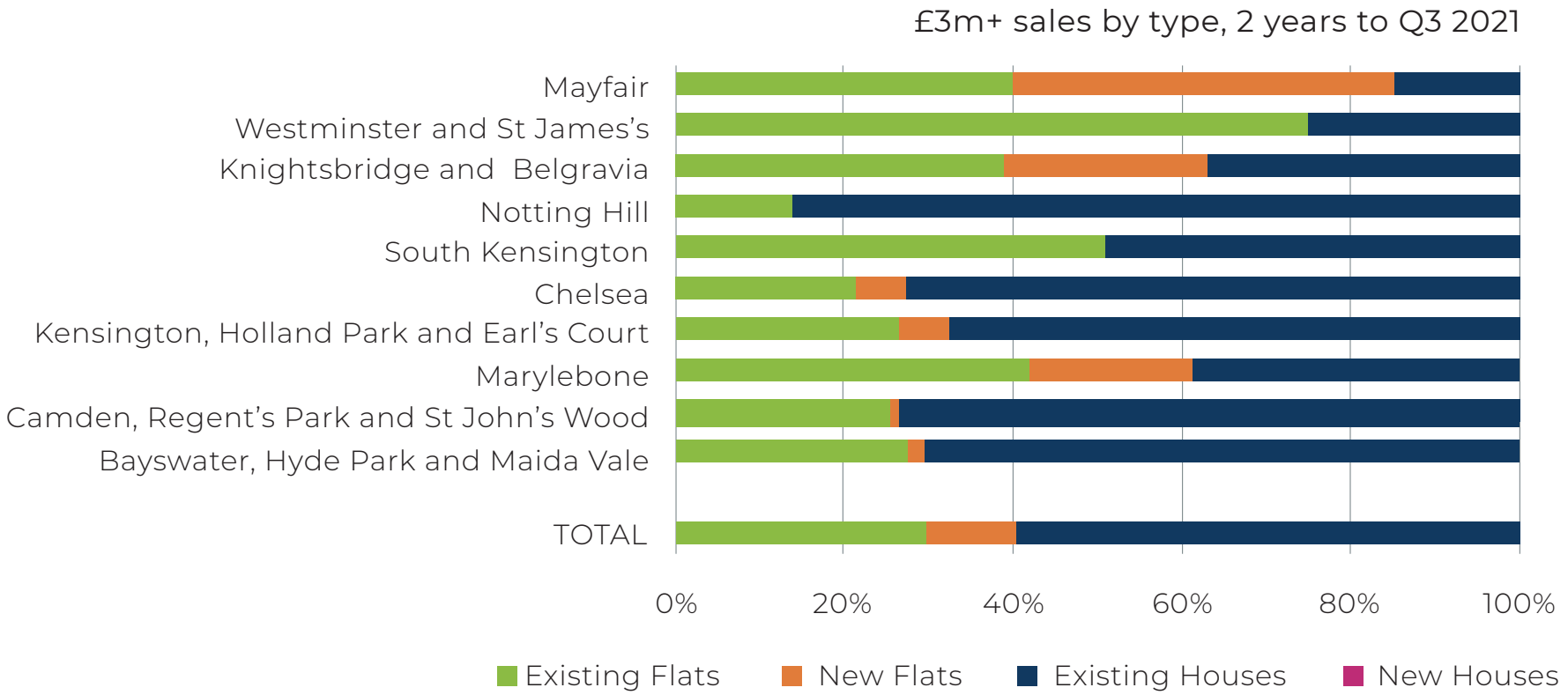


% change in # of sales
12 months to Q3 2021 vs. previous years

- Relative to previous years, activity over the past 12 months is down in the super prime £15m+ markets, with a more mixed performance across the lower value price bands.
- 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.

Source: Land Registry Price Paid Data

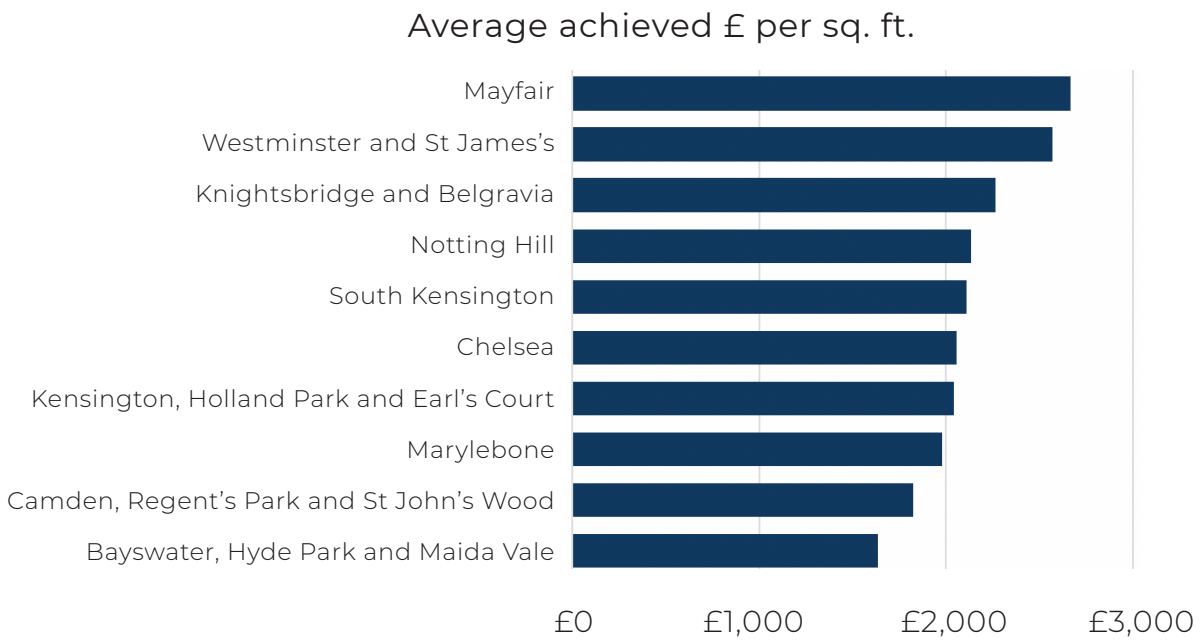
LOCAL ANALYSIS: PART ONE

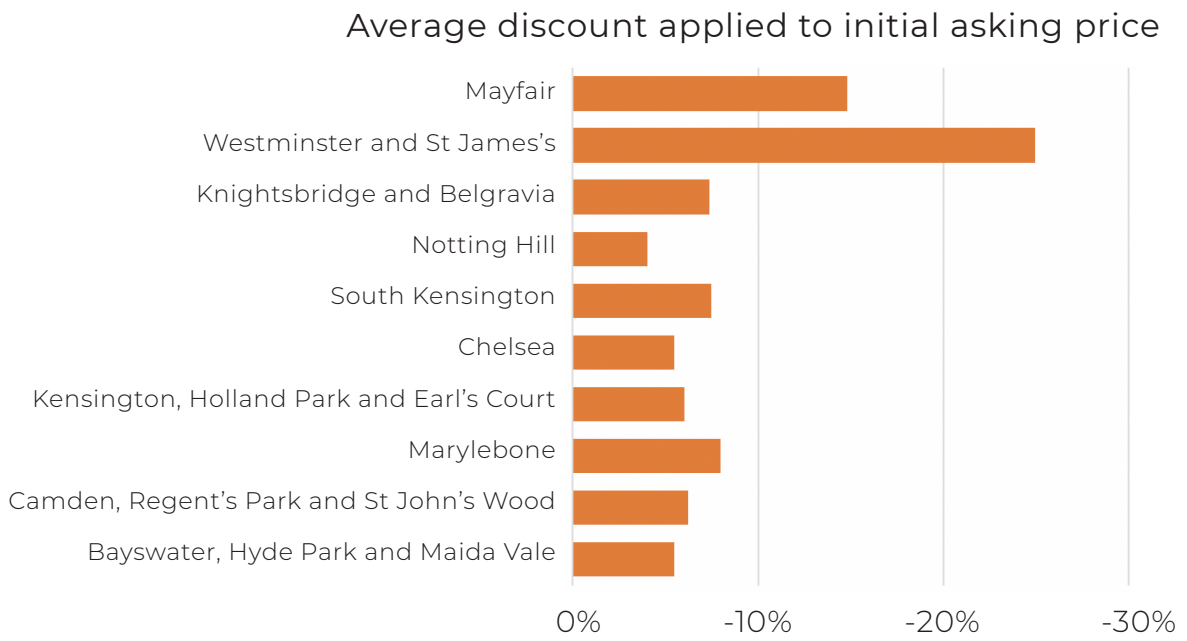


- New build homes have accounted for 10% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 60% to 40%.
- Mayfair, Marylebone, and Knightsbridge and Belgravia had the highest proportions of new build activity.

Source: Land Registry Price Paid Data

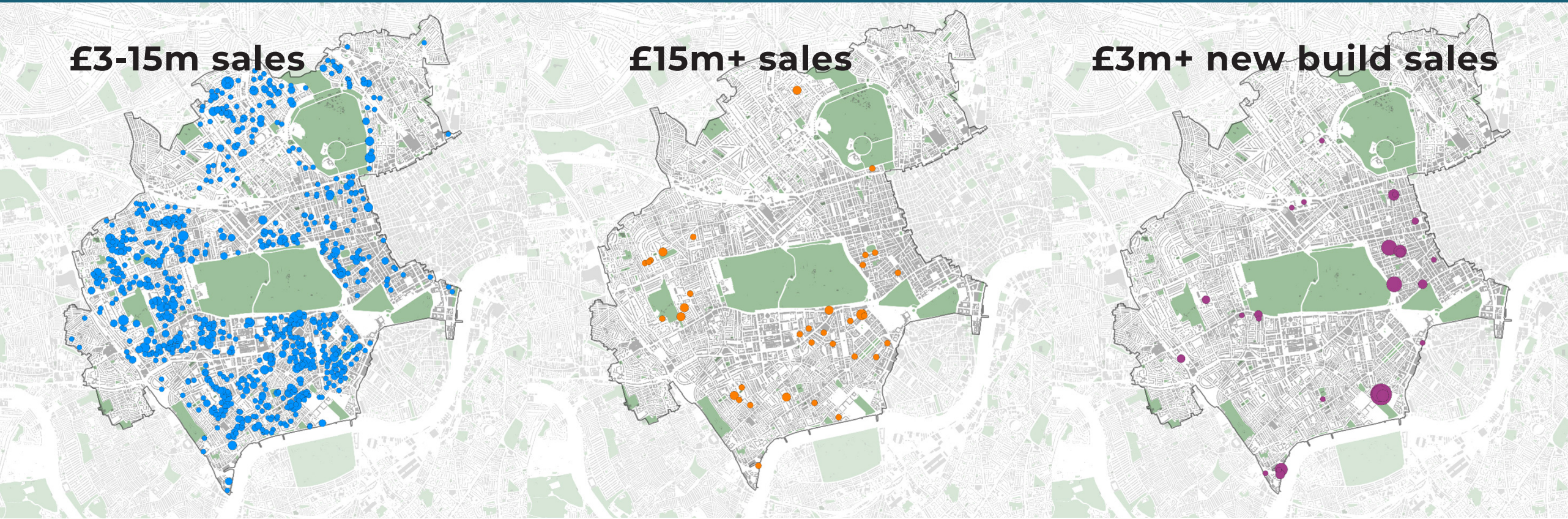
LOCAL ANALYSIS: PART TWO





Source: LonRes £3m+, 12 months to Q4 2021

ACTIVITY MAPS



Source: OS OpenData, HM Land Registry.

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

FORECAST SUMMARY

- The traditional end of year forecast 'season' saw comprehensive updates from Savills and JLL. Both agents expect values in prime central London to grow strongly in 2022, with slower increases over the remainder of the five-year forecast horizon. In the short term, the main factors driving this are the release of pent-up demand from overseas buyers as international travel recovers, plus taking the chance to potentially buy ahead of rising interest rates. The relative value of PCL – with prices down around 20% over the past seven years – and a continuing lack of stock will also support growth.
- The expectations for mainstream values are much more varied. JLL have forecast strong Greater London performance – +26% over five years – driven by a continuing supply-demand imbalance and a recovery in the appeal of urban living. Savills suggest that there is limited potential for further mainstream price growth in London, with affordability very stretched for many would-be home buyers.
- The forecasts from Knight Frank are unchanged from those previously released.
- Cluttons released 2022-26 figures in early February, expecting a strong 2022 and total growth of 25% over the five years, bringing them into line with the other agents.
- An important point to note is that all these figures are nominal. Over recent years, inflation has been very low, but CPI reached 5.4% in December, the highest figure since 1992. Further rises are expected 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	Nov 2021	8.0%	4.0%	2.0%	4.0%	4.0%	**23.9%**
	Knight Frank	Mar 2021	7.0%	5.0%	4.0%	5.0%	-	**22.7%***
	JLL	Nov 2021	7.5%	5.0%	2.5%	3.0%	3.0%	**22.7%**
	Cluttons	Feb 2022	7.4%	5.5%	4.0%	3.5%	2.8%	**25.4%**
Greater Central (mainstream)	Savills	Nov 2021	2.0%	1.5%	1.0%	1.0%	0.5%	**5.6%**
	Knight Frank	Mar 2021	4.0%	3.0%	3.0%	3.0%	-	**13.6%***
	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. * = four-year forecast where 2026 figures not available.*

RISKS AND OUTLOOK

Positive ⟷ Negative

Balanced demand

While houses continue to be more sought after than flats, the end of 2021 showed an increase in demand for smaller properties. With the number of international travellers, office workers and students in central London all continuing to recover, demand should be more balanced going forward.

In addition, a new government plan to protect leaseholders from building safety costs could also restore some confidence in the flat market.

Russia and Ukraine

The situation in Ukraine could have a series of negative impacts on prime central London property. Demand from Russian buyers is likely to fall, and the threat of further sanctions may lead to some attempting to sell their London property. Oil price shocks, which are likely, are correlated to downturns in prime central London house prices.

In the longer term, changes to rules on anonymous ownership may make London property less attractive to buyers more generally.

Super prime property leading the way

Super prime London property had a very strong 2021 in terms of both activity and values. This was underpinned by domestic demand and took place despite international travel remaining below usual levels and a lack of stock in many markets.

Moving into 2022, this trend is set to continue, supported by the return of more international buyers. This could have a positive impact on the wider prime central London market, which often follows where the super prime market leads.

Interest rates and inflation

Inflation rose again in Q4, to the highest level in a decade, and economic forecasters anticipate further rises in early 2022 along with corresponding higher interest rates.

While the typically equity-rich buyers of prime central London property tend to be less dependent on debt, higher interest rates are rarely positive for property values, potentially dampening demand. However, in the short-term it is possible some purchases may be brought forward to get ahead of future increases in interest rates and the cost of buying.