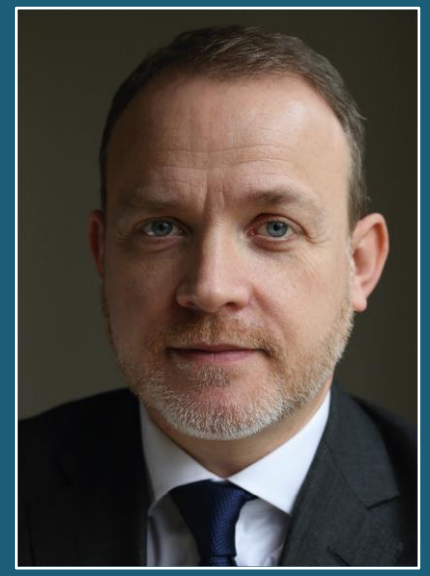

JUSTIN MASON
VALUATION • CONSULTANCY
Prime Central London Update February 2023

Key Highlights

- Prime Central London* sales activity fell slightly in Q4, with 186 transactions recorded by LonRes**. This is 7% down on sales volumes in Q3 2022.
- On an annual basis, there were 801 sales above £3m in 2022, 12% lower than 2021 but 56% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Values were broadly unchanged in Q4. LonRes reported a small increase in achieved average £ per sq. ft. whereas the agents' opinion-based indices indicated slight falls on a quarterly basis for prime properties. The value gap between houses and flats on a £ per sq. ft basis grew for the second quarter in succession, following two years of reducing.
- Average discounts in PCL increased slightly in Q4, counter to the general trend since 2019. Broken down by property type, average discounts for prime houses remain smaller than for flats (5.6% vs. 7.5%), but the recent trend of this gap closing continued.
- There have been no changes to the forecasts from the major agents since our previous update. 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 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.

JUSTIN MASON
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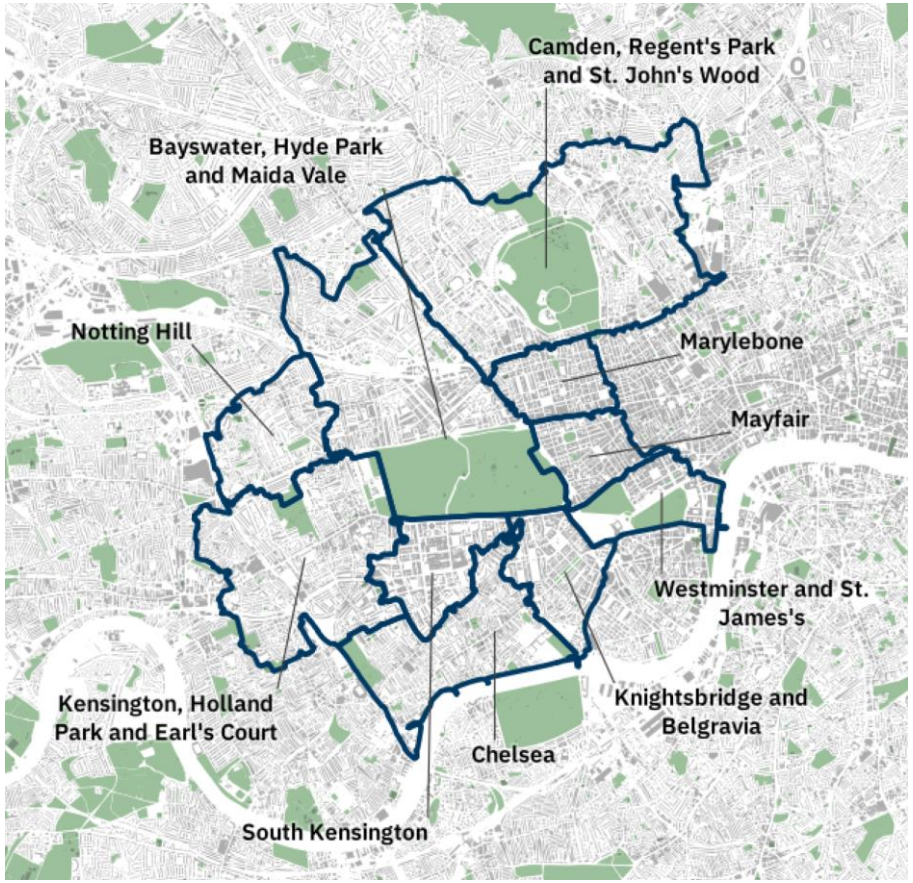


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Market Background

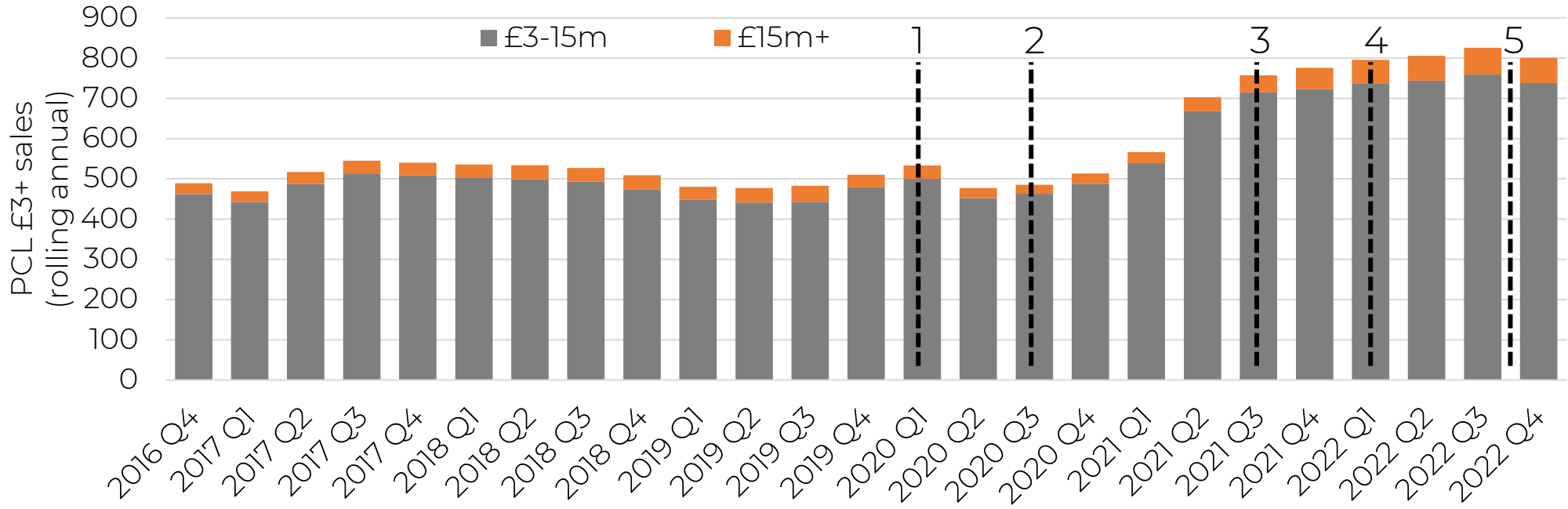


Area	Transactions (12m to Sep-22)	Compared to last Q (12m to Jun-22)
England	702,000	Down 78,000 (-10%)
London	80,000	Down 2,000 (-3%)
Camden, Westminster and RBKC	5,800	Same (0%)
PCL £3m+	710	Down 50 (-6%)

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



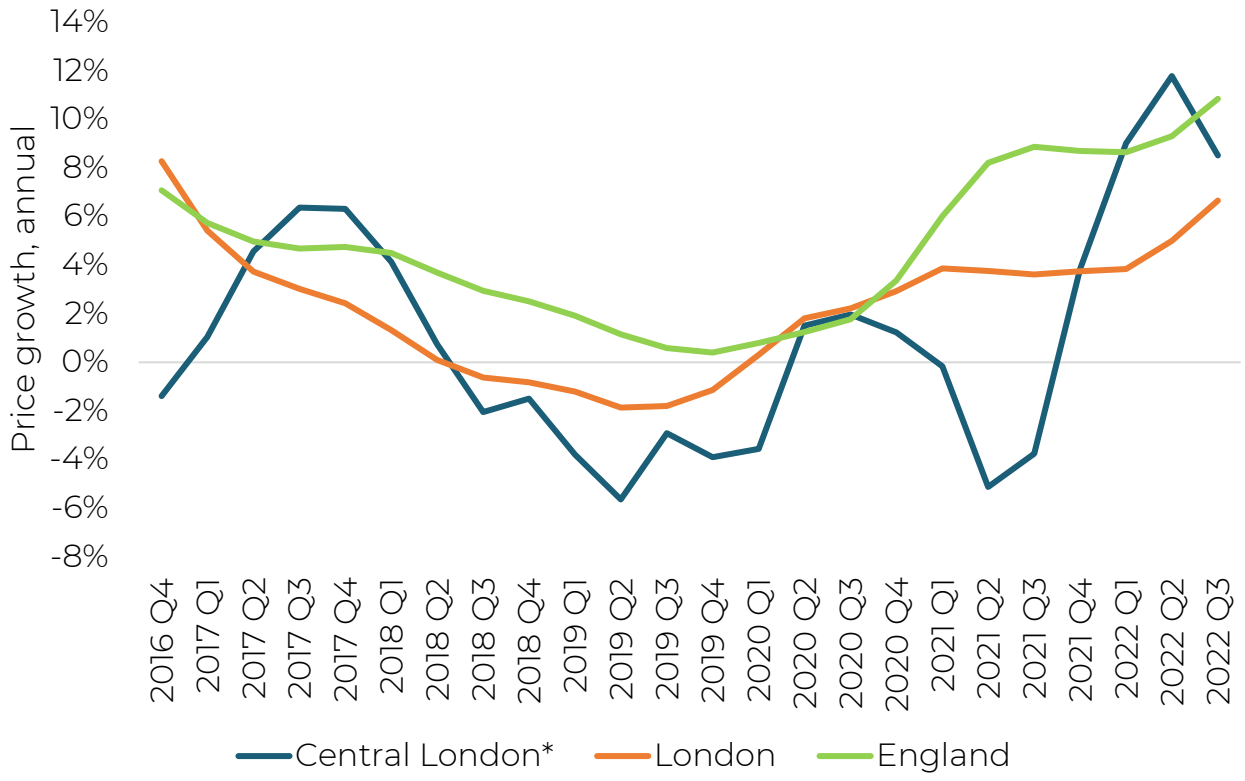
Source: LonRes

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

- Activity in PCL in Q4 was slightly down on Q3 but otherwise broadly in line with recent trends. This was the case for both the prime £3-15m price band and the £15m+ super prime market.
- In Q4 there were 186 transactions across both price bands, 7% lower than Q3 2022 and 12% lower than Q4 a year ago, based on LonRes data.
- On an annual basis there were 738 recorded prime sales and 63 super prime, totalling 801 over the full year. Again this is relatively unchanged from recent results, being 3% lower than the previous quarter and 3% higher than a year earlier. The current level is 57% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.
- The wider London market saw lower activity in 2022 compared to 2021, but the prime and super prime sectors continued to perform strongly. Clearly these higher price points are less dependent on mortgage finance and less affected by rises in the cost of living, so on one level it is not surprising that they have outperformed. However, the negative impact of these changes on the wider economy has affected sentiment more generally, so activity levels remaining high indicates robust underlying demand for prime London homes.

House Price History

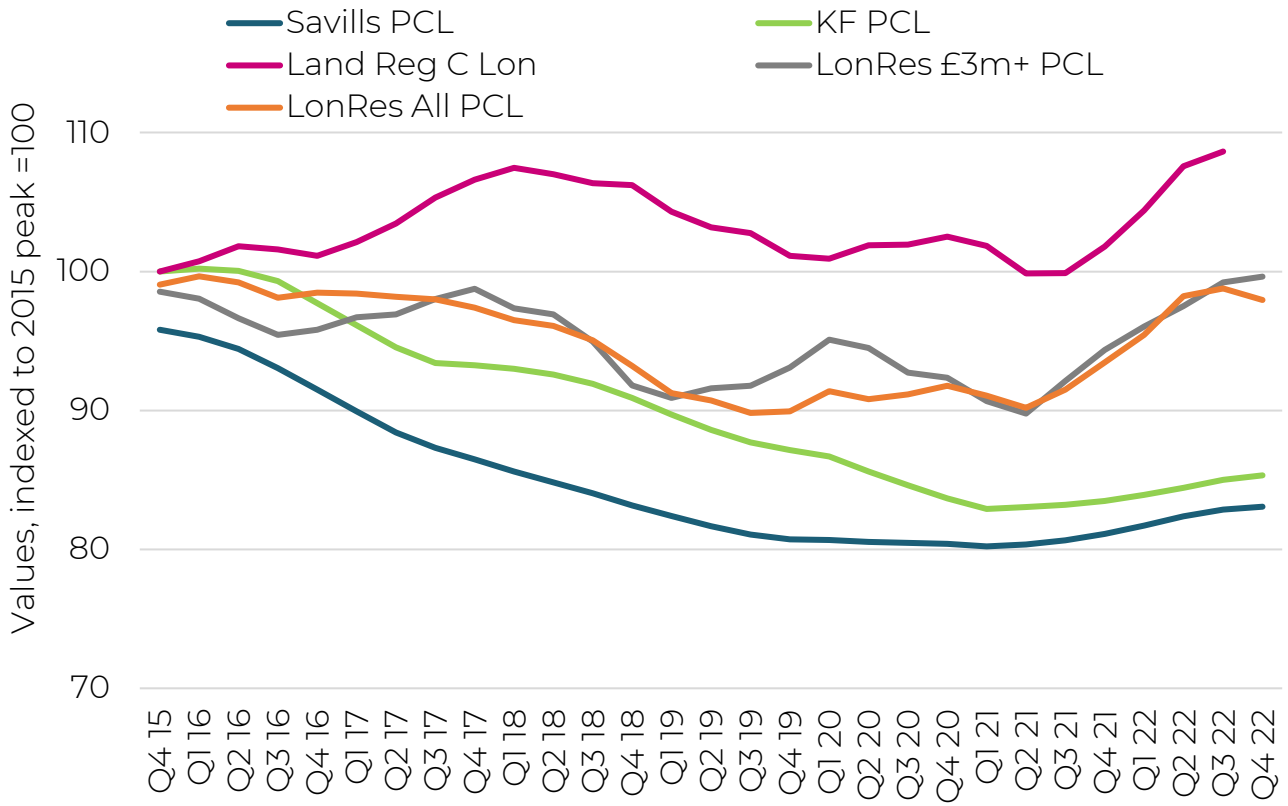


Source: ONS UK HPI (data smoothed, 6 months)

**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 increased slightly in Q3 to 10.8% annual (from a revised 9.3% in Q2), according to the ONS index for England.
- Price rises in central London boroughs* slowed in Q3, with annual growth of 8.5%.
- Growth for the wider London region continued to lag both central London and the national average, but increased to 6.7%.

Achieved Prices and Agents' Indices



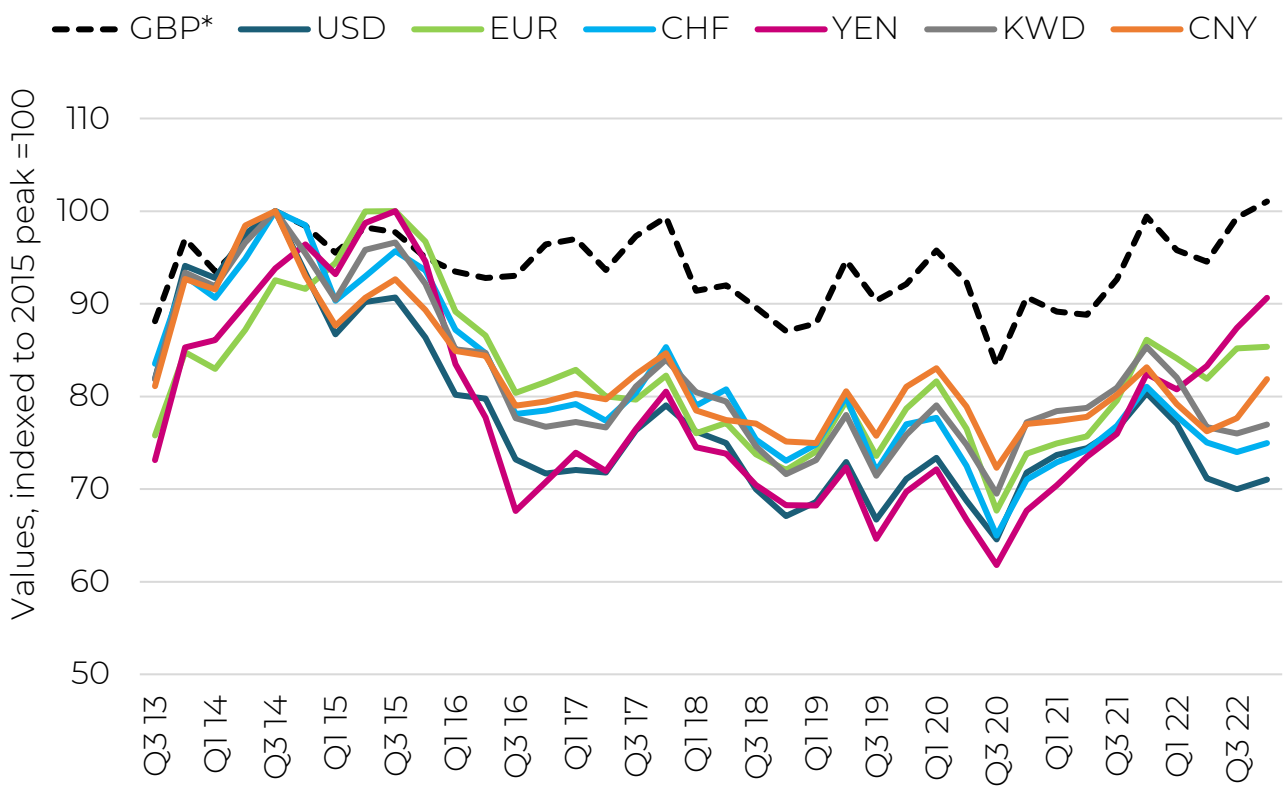
Source: Land Registry, Savills, Knight Frank, LonRes

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 slight falls in values in Q4, meaning very little change on an annual basis.
- LonRes achieved £ per sq ft data is included on the chart for comparison, recording higher levels of growth.

Pricing in Other Currencies

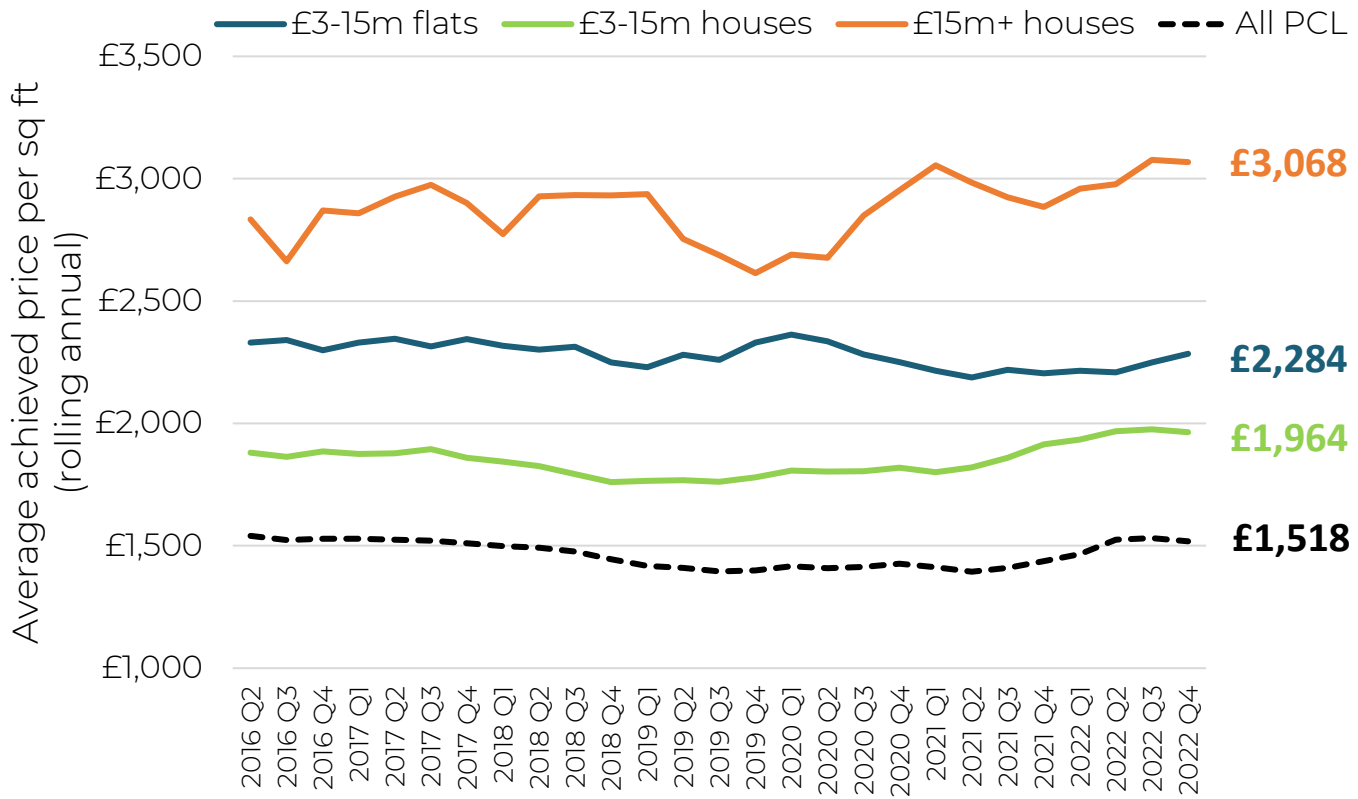


- London is a global city with market participants from all over the world.
- Nominal price movements in sterling therefore do not necessarily reflect the effective price for buyers holding wealth in other currencies.
- This chart shows the effective price movements of PCL property in a range of major currencies.
- Even in the most 'expensive' currency, Japanese Yen, prime London homes are around 9% below their 2015 peak, compared to 1% above in sterling terms. In US dollars the equivalent figure is -29%.

Source: LonRes, Yahoo Finance

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

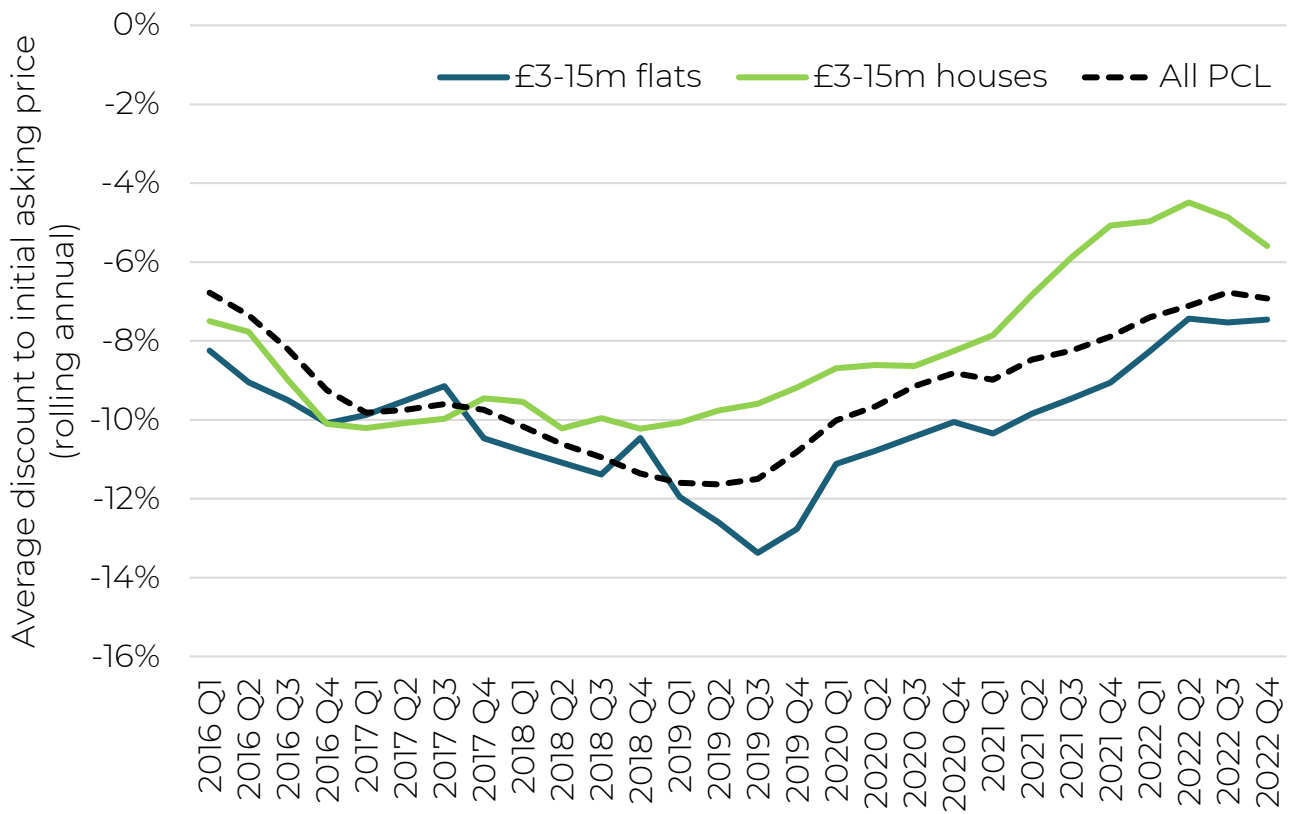
Achieved £ per sq ft by year



Source: LonRes

- On an annual basis, achieved values for PCL overall saw a 6% rise (£1,518 in Q4 2022 vs £1,436 in Q4 2021).
- In the higher price bands the gap between flat and house values widened for the second quarter in a row (after closing for the previous nine). £3-15m flat values were up 4% compared to a year earlier with £3-15m houses up 3%.
- £15m+ houses were up by 6% 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:
  - -3% for £3-15m flats
  - +6% for £3-15m houses
  - +6% for £15m+ houses
  - +1% 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

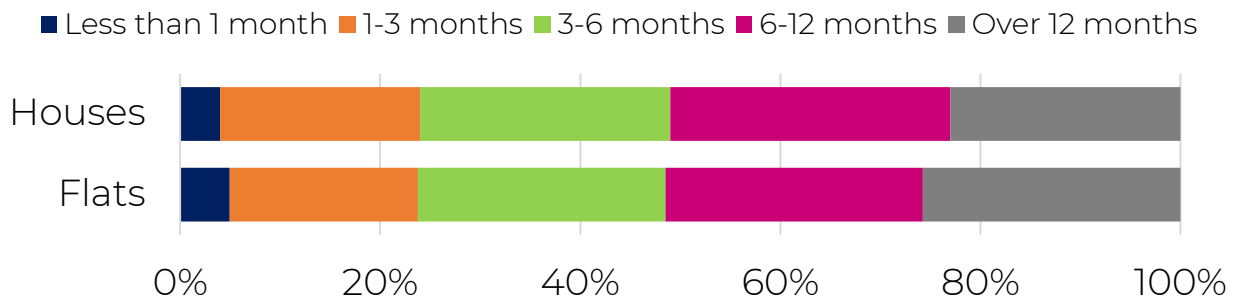


- Average discounts across PCL increased slightly in Q4 to 6.9%, the first rise since Q1 2021.
- In the £3-15m markets, discounts for houses increased in Q4. The average discount for £3-15m houses reached 5.6% compared to a recent minimum of 4.5% (Q2 2022), while flat discounts in this price band were 7.5%, the same as the previous quarter.
- The difference in average discounts between flats and houses in the £3-15m band was 1.9 percentage points, down from a peak of 4.0 at the end of 2021.
- Growing discounts were in part driven by weakening buyer sentiment, which has finally responded to the economic and political uncertainty of the second half 2022.

Source: LonRes

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

Time on the Market



49.1%

Almost half of properties have been discounted

14.6%

Around 1 in 7 are currently under offer

-1.2%

Stock levels are similar to one year ago

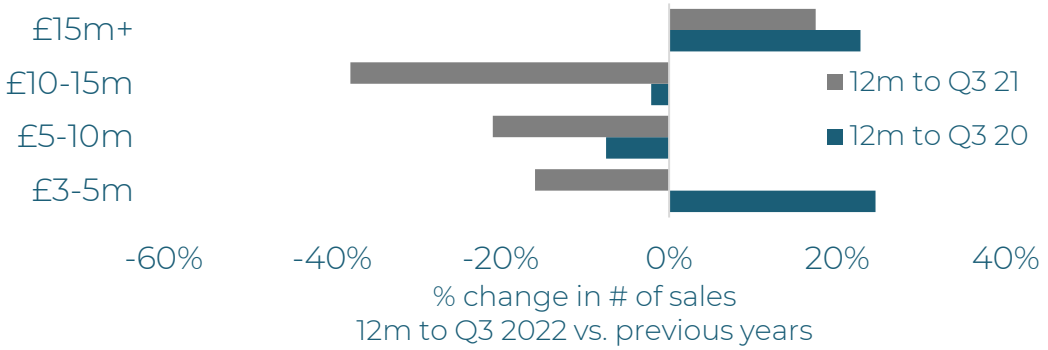
- For current listings in PCL*, 51% have been on the market for over 6 months (51% for houses; 52% for flats).
- This data indicates an average time on the market of around 8.2 months for houses and 8.6 months for flats.
- Stock levels fell slightly on an annual basis, by 1.2%. This was driven in part by new instructions starting their seasonal slowdown earlier than usual in 2022.

Source: LonRes, data for Q4 2022 only

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

Depth of Market

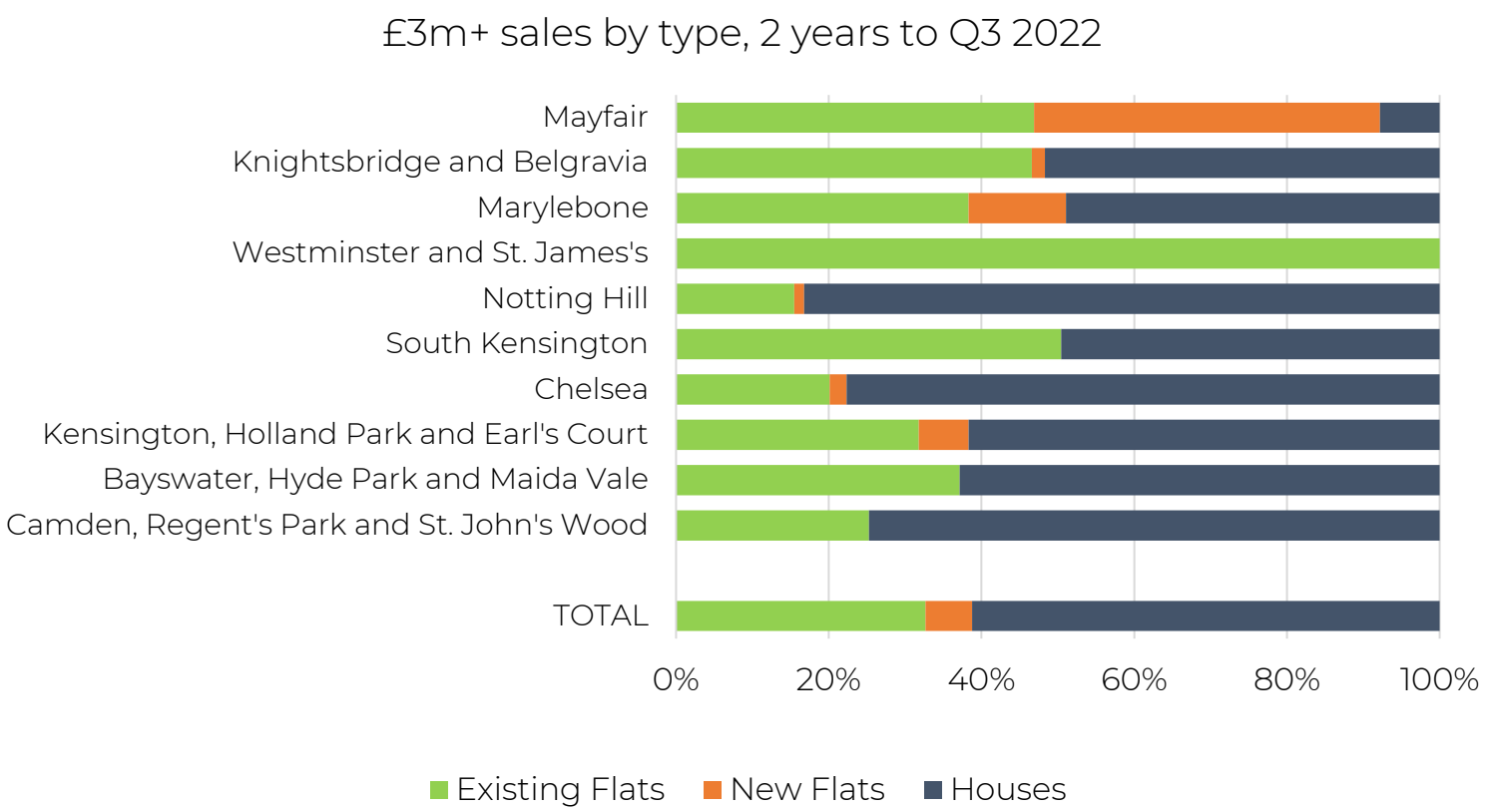
Price band	Existing flats	New flats	Houses*
£3-4m	127	2	120
£4-5m	51	2	84
£5-6m	31	1	52
£6-7m	15	0	52
£7-8m	6	0	31
£8-9m	7	2	17
£9-10m	2	1	6
£10-12.5m	4	0	19
£12.5-15m	7	0	16
£15-17.5m	2	0	9
£17.5-20m	6	0	6
£20-25m	6	0	6
£25-30m	8	0	0
£30-40m	0	2	6
£40-50m	1	0	0
£50m+	1	1	0
TOTAL	274	11	424



- The table shows £3m+ sales volumes by price band in the 12 months to Q3 2022, according to Land Registry completions data. A comparison to the trends in the two previous years is shown in the chart.
- Activity at £15m+ over the past 12 months is higher than previous years, with the picture more mixed at lower price bands.
- * 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

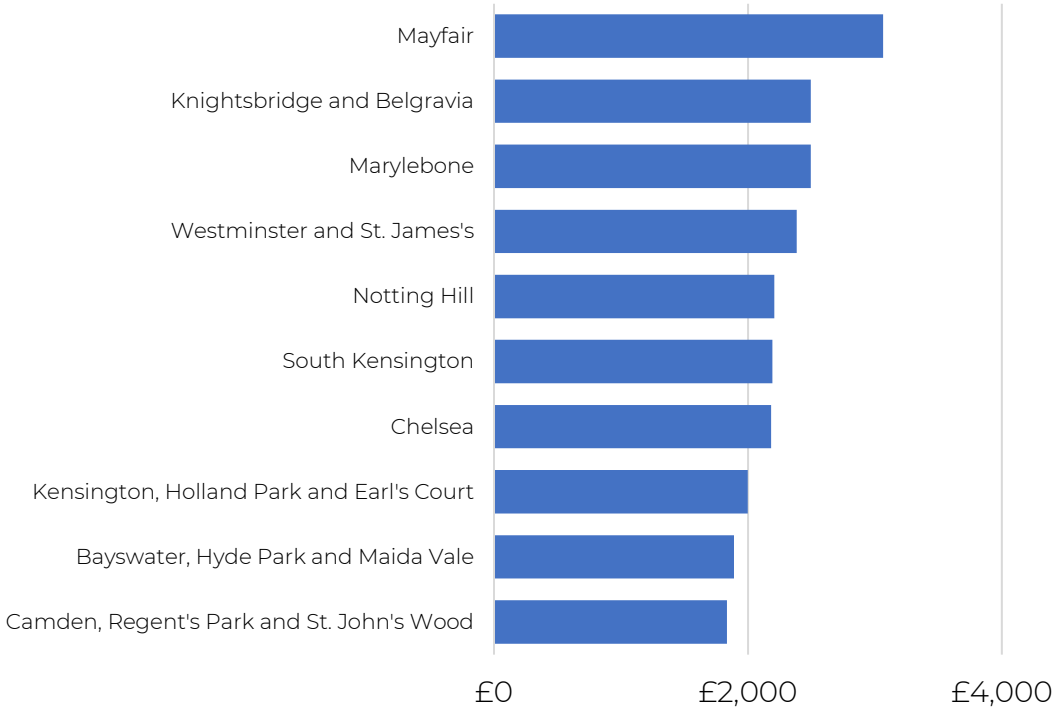


- New build homes have accounted for 6% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 61% to 39%.
- Mayfair had the highest proportion of new build activity over this period, followed by Marylebone.

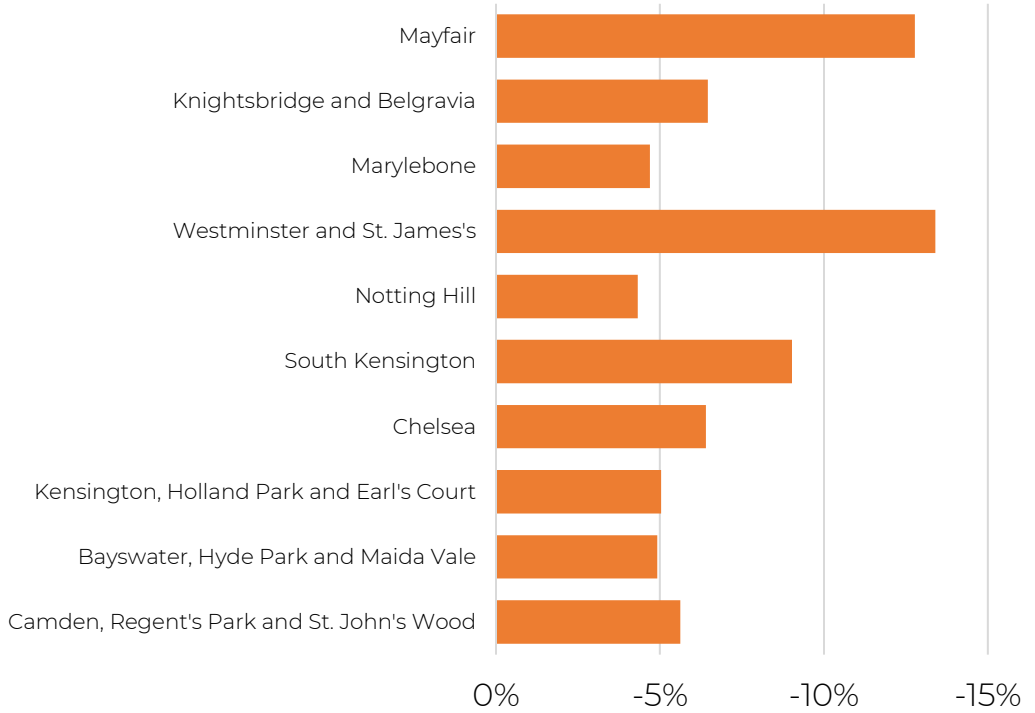
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq. ft.

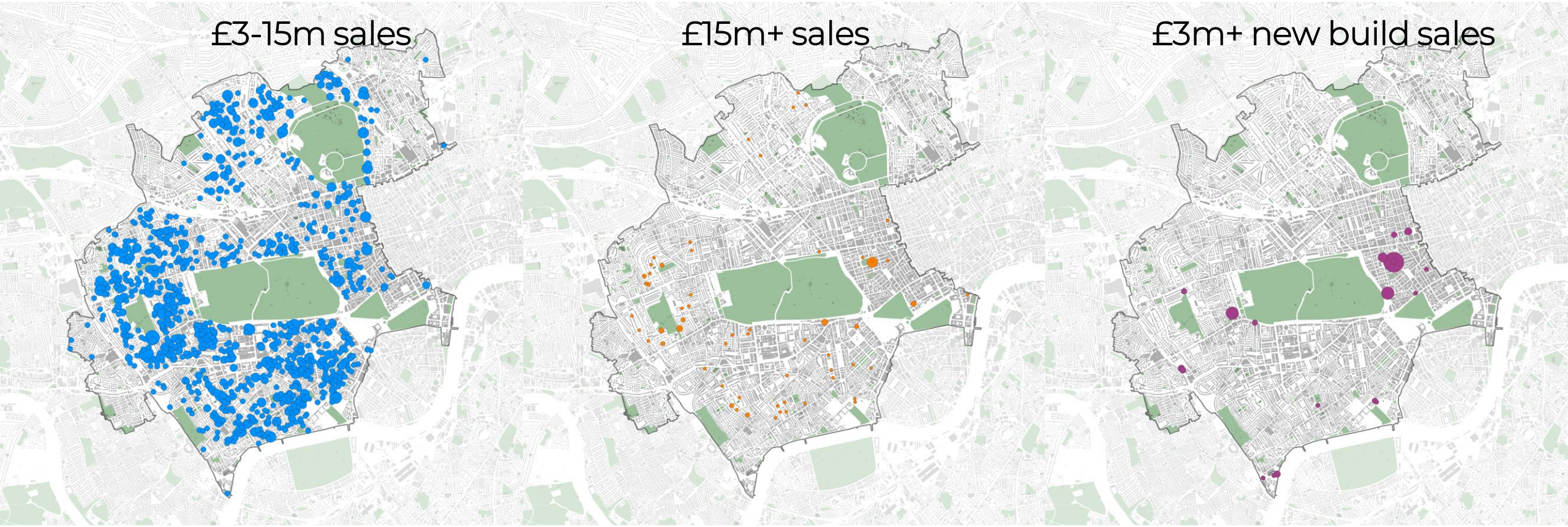


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q4 2022

Activity Maps



Source: OS OpenData, HM Land Registry

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

Forecast Summary

- After a flurry of activity in October and November, as reported in our previous update, there have been no further changes to the major agent forecasts.
- Knight Frank expect to see two years of price falls and very limited growth over the five years to the end of 2026 for both the UK and London mainstream markets. This is driven by the adverse outlook for borrowing costs and wider cost-of-living pressures. While PCL will also see some impact from higher borrowing costs, they expect this to be mitigated by the relative value in a market that has seen little growth since 2014, meaning a small fall next year and no change in values in 2024.
- Savills expect falls in all markets in 2023. The largest annual price drop – 12.5% – is forecast for London mainstream property, with a recovery in 2025 to 27. PCL is set to fare better due to less reliance on mortgage debt, with a smaller 2.5% fall next year and 13.5% combined growth over the five years to 2027.
- JLL's new forecasts are more positive. While they also expect mainstream London values to fall next 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.
- 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*	2022	2023	2024	2025	2026	2027	*5 year total**
Prime Central London	Savills	*Nov 2022*	-	-2.0%	2.0%	5.0%	4.0%	4.0%	**13.5%**
	Knight Frank	*Oct 2022*	3.5%	-3.0%	0.0%	3.0%	4.0%	-	**7.5%**
	JLL	*Nov 2022*	-	2.5%	3.0%	3.5%	4.0%	5.0%	**19.3%**
Greater London (mainstream)	Savills	*Nov 2022*	-	-12.5%	-1.0%	2.0%	6.0%	5.0%	**-1.7%**
	Knight Frank	*Oct 2022*	3.0%	-6.0%	-4.0%	3.0%	5.0%	-	**0.5%**
	JLL	*Nov 2022*	-	-4.0%	2.5%	4.0%	5.0%	6.0%	**13.9%**

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

** Total growth over period 2022 to 26 or 2023 to 27 depending on years covered.*

Risks and Outlook

Positive

Activity remains robust

Sales activity in Q4 remained robust, defying the 'mini' budget and subsequent political turmoil. Values are also showing little sign of significant falls so far.

Unlike the mainstream national market, where values have risen over 20% since March 2020, PCL values are only up around 5% over that period. Combined with the proportion of buyers and sellers not relying on mortgage finance there may be less scope for price falls in the event of any downturn.

Recession avoided – for now

The performance of the UK economy surprised on the upside, based on the latest GDP figures. Growth of 0.1% was recorded in November, with the consensus expecting a fall, and this means recession is likely to have been avoided in the second half of 2022.

Inflation has started to fall back from its peak, with more falls expected. Small signs that the economy is proving more resilient than anticipated are positive for sentiment – in general and in the property market – which is important when the outlook is so uncertain.

Negative

Risk of stagnation

While the market appears robust based on the last quarter's data, other metrics are starting to indicate that sentiment may be weakening. Price reductions and fall throughs have increased in the last few months as sellers adjust their expectations and buyers signal their uncertainty.

If these conditions continue, a likely result is a stagnant PCL market, with (nominal) prices broadly stable and lower transaction levels as buyers and sellers adopt a 'wait and see' approach.

Poor economic outlook for 2023

The relatively positive recent economic signals should be balanced against other evidence when considering the outlook for the rest of the year.

Growth at a global level is expected to slow in 2023, not helped by the impact of Covid on the Chinese economy. Even against this context of generally lower growth, the UK economy is expected to be one of the worst performers according to the OECD, with the lowest forecast 2023 growth in the G7.