

JUSTIN MASON

VALUATION • CONSULTANCY

Prime Central London Update May 2024

Key Highlights

- Prime Central London* sales activity decreased in Q1 2024, with 134 transactions recorded by LonRes**. This is 8% down on sales volumes in Q4 2023. There were 635 sales above £3m in the 12 months to March, 1% lower than the 12 months to December 2023 but 25% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.

- The number of homes for sale in the £3-15m market is high compared to past levels and relative to current sales activity. The ratio of available stock to monthly sales was 27 to 1 in Q1 2024, up from 24 to 1 at the end of 2023 and above the long-term average of around 20 to 1.

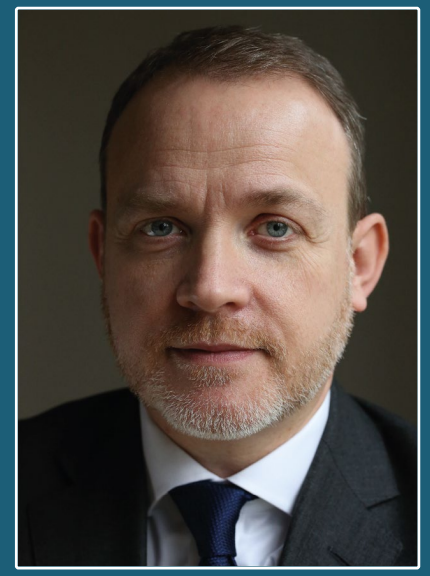
- Values fell slightly in Q1, according to both the agents' opinion-based indices and figures based on sold prices. The value gap between houses and flats on a £ per sq ft basis closed in Q1, with flat prices falling slightly faster than houses.

- Average discounts in PCL increased in Q1, the sixth quarterly rise after three years of falls. Broken down by property type, average discounts for prime houses remain smaller than for flats (7.7% vs. 9.3%), with the gap unchanged from Q4.

- After new forecasts all round in Q4, there were no changes to our tracked forecasters' published figures in Q1. 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.

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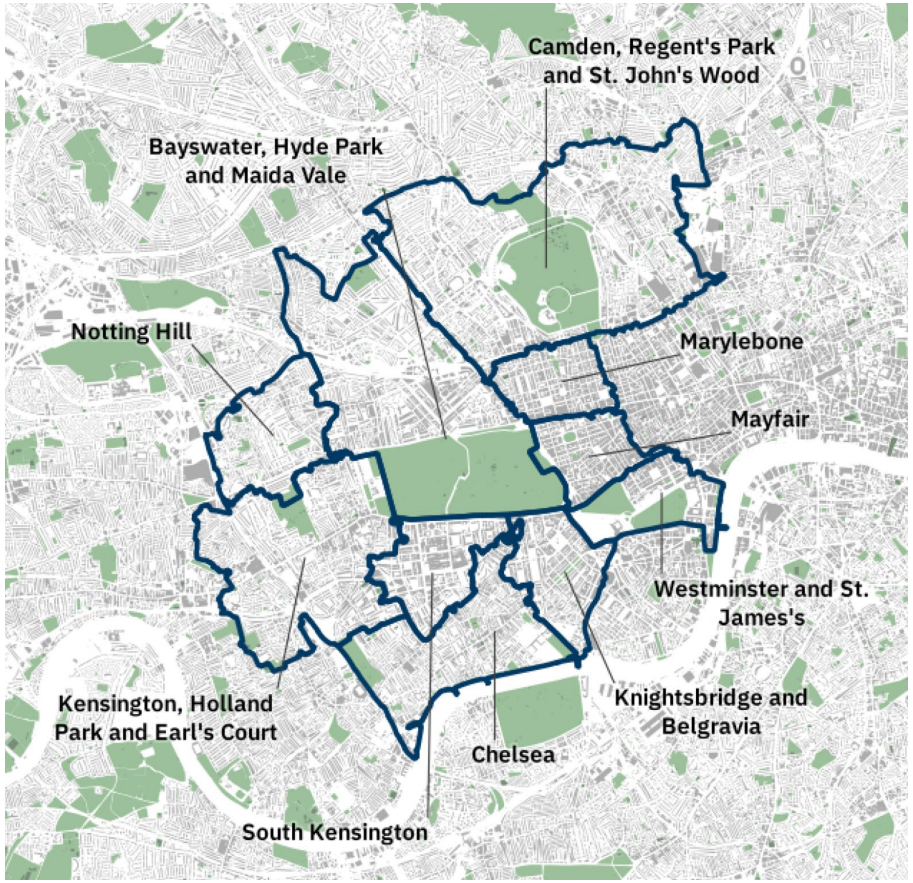


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Market Background

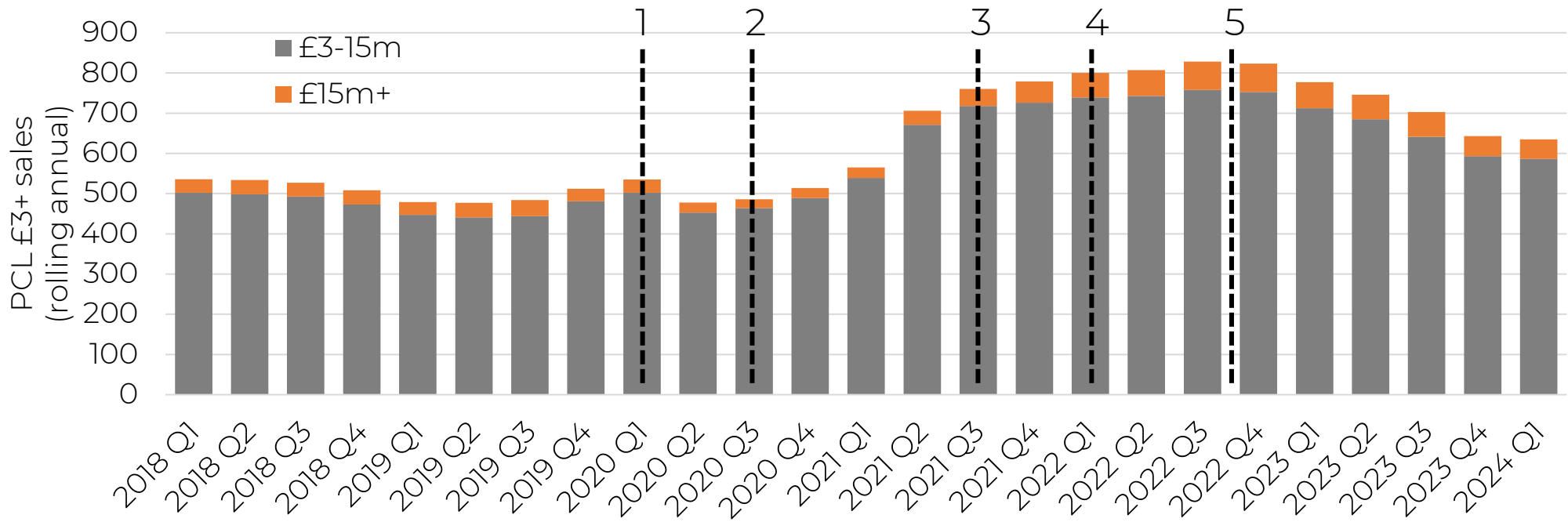


Area	Transactions (12m to Dec-23)	Compared to last Q (12m to Sep-23)
England	540,000	Down 117,000 (-18%)
London	66,000	Down 15,000 (-18%)
Camden, Westminster and RBKC	5,300	Down 1,000 (-15%)
PCL £3m+	600	Down 130 (-18%)

Source: Land Registry Price Paid Data
Note: 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 around 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



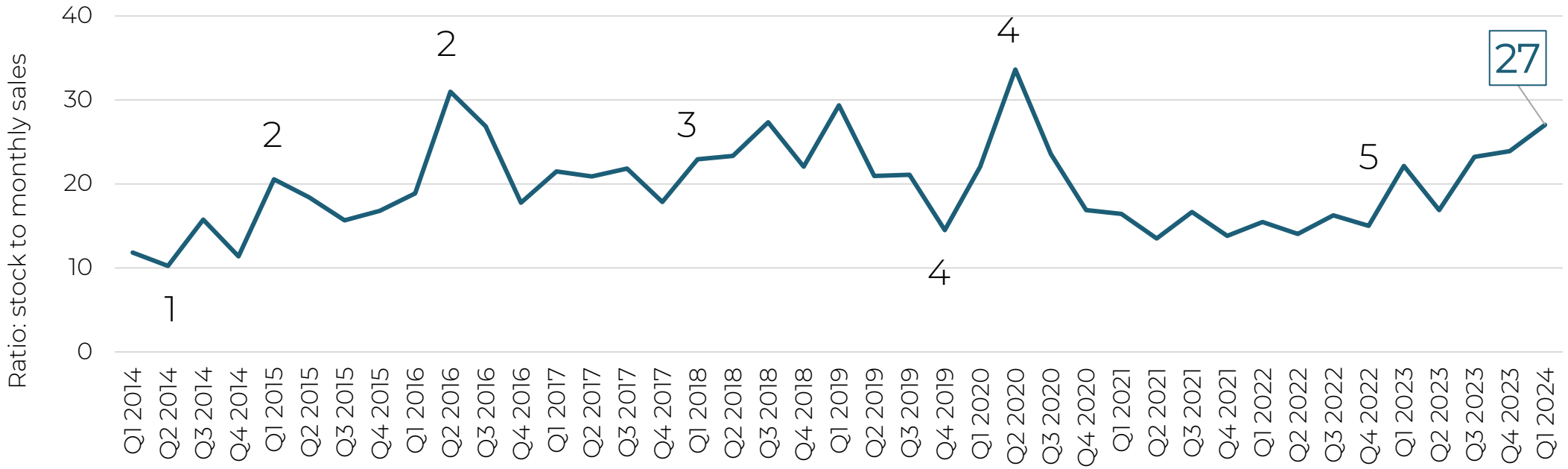
Source: LonRes

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 Q1 2024 decreased compared to Q4 2023, driven by an 11% fall in the volume of sales in the prime (£3-15m) market. The smaller super prime (£15m+) market grew by 38% over the same period.
- In Q1 there were 134 transactions across both price bands, 8% fewer than Q4 2023 and also 6% lower than Q1 a year ago, based on LonRes data.
- There were 586 recorded prime sales and 49 super prime in the 12 months to March 2024. The total figure of 635 transactions is 1% down compared to the 12 months to December 2023.
- For longer-term context, the current level is around 25% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.

Supply and Demand



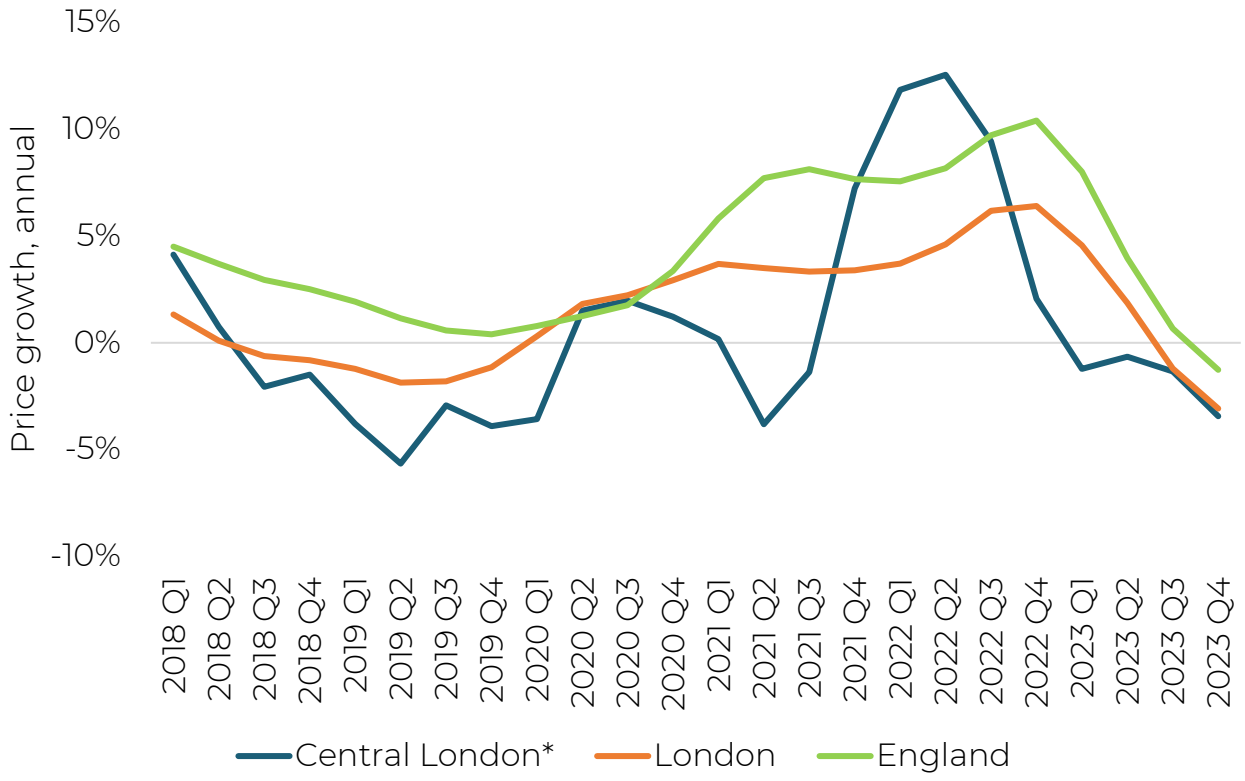
Source: JMVC using LonRes data *Note: £3-15m properties only, includes properties under offer*

2014	2015-16	2017-21	2019-20	Late 2022
1: Previous market peak	2. Property tax increases (ATED Apr-15, additional SDLT 16)	3: Tapering loss of mortgage interest relief on rental properties	4: 'Boris Bounce' (Q4 2019) followed by pandemic (Mar-20 on)	5: Jump in interest rates after Truss 'mini-Budget'

Supply and Demand

- The chart on the previous page is a new addition to the report. It shows the ratio of available stock for sale at the end of each quarter to the average sales per month in that quarter.
- The long-term average over the past decade is a ratio of around 20 to 1. When the ratio is below 20 to 1 for an extended period – i.e. less supply (available stock) relative to demand (sales) for consecutive quarters – we have tended to see price growth, although there is not a rigid relationship due to external factors.
- The lowest points were seen in 2014 and 2021/22. Tax changes in 2015 (ATED), 2016 (additional SDLT), and 2017 (removal of mortgage interest relief), combined with the vote to leave the EU also in 2016, weakened the market.
- It started to recover in late 2019 after Boris Johnson secured a large majority at the General Election, but this was immediately cut short by the Covid pandemic in Q2 2020. The post-pandemic recovery in 2021, boosted by a SDLT cut, slowed in 2022 following conflict in Ukraine and Liz Truss's short-lived spell as Prime Minister.
- The ratio has continued to rise since then, reaching 27 to 1 in Q1 2024 as escalating conflict in the Middle East and the end to 'non-dom' status add to the negative sentiment around the market.

House Price History

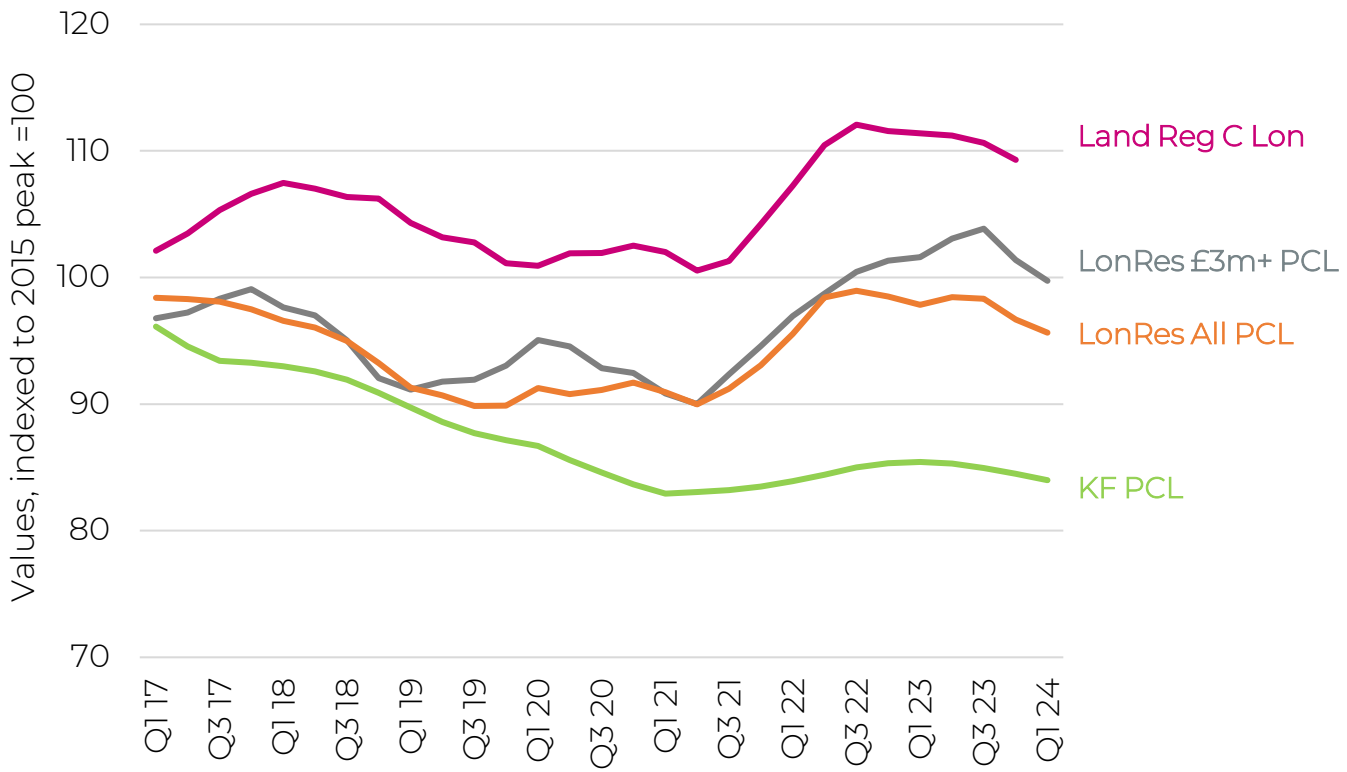


Source: ONS UK HPI (data smoothed, 6 months)

**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*

- National house prices fell in Q4 by 1.3% on an annual basis, according to the ONS index for England.
- Prices also fell in central London boroughs* in Q4, with an annual change of -3.4%, down from -1.3% (revised) in the previous quarter.
- The wider London region was similar with an annual change of -3.1%.

Achieved Prices and Agents' Indices

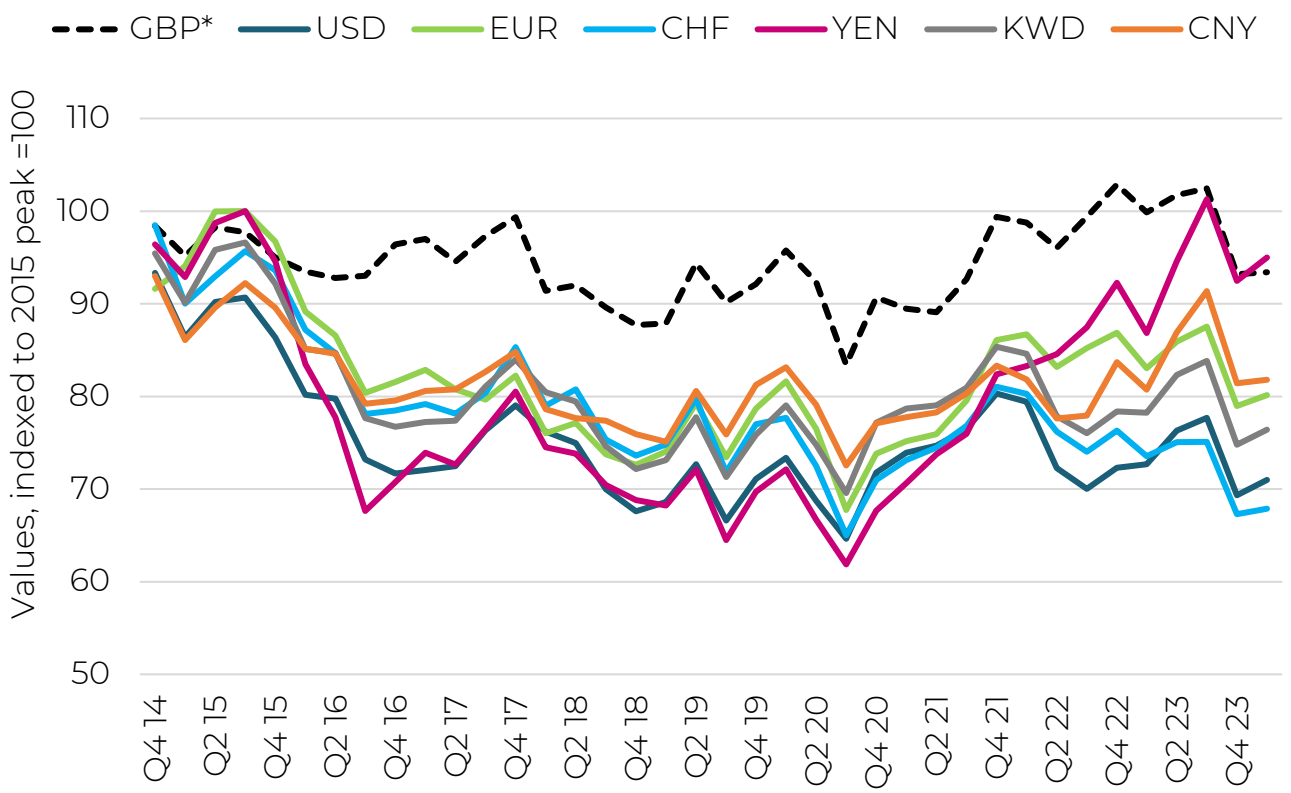


Source: Land Registry, Knight Frank, LonRes

Notes: All data 12-month smoothed. LonRes data is not an index, see page 11.

- This page compares an opinion-based house price index from a central London agent with average achieved price-based data from both the Land Registry* and LonRes.
- Knight Frank's PCL index recorded a 2.4% annual fall in Q1. This index continues to show lower relative performance compared to figures based on actual sold prices, with values more than 15% below their 2015 peak.
- Both the £3m+ and all value averages from LonRes also recorded falls in Q1. The £3m+ band has outperformed the wider 'all PCL' figure for the past two years.
- **Land Registry figures are an average of their Westminster, RBKC and Camden indices.*

Pricing in Other Currencies

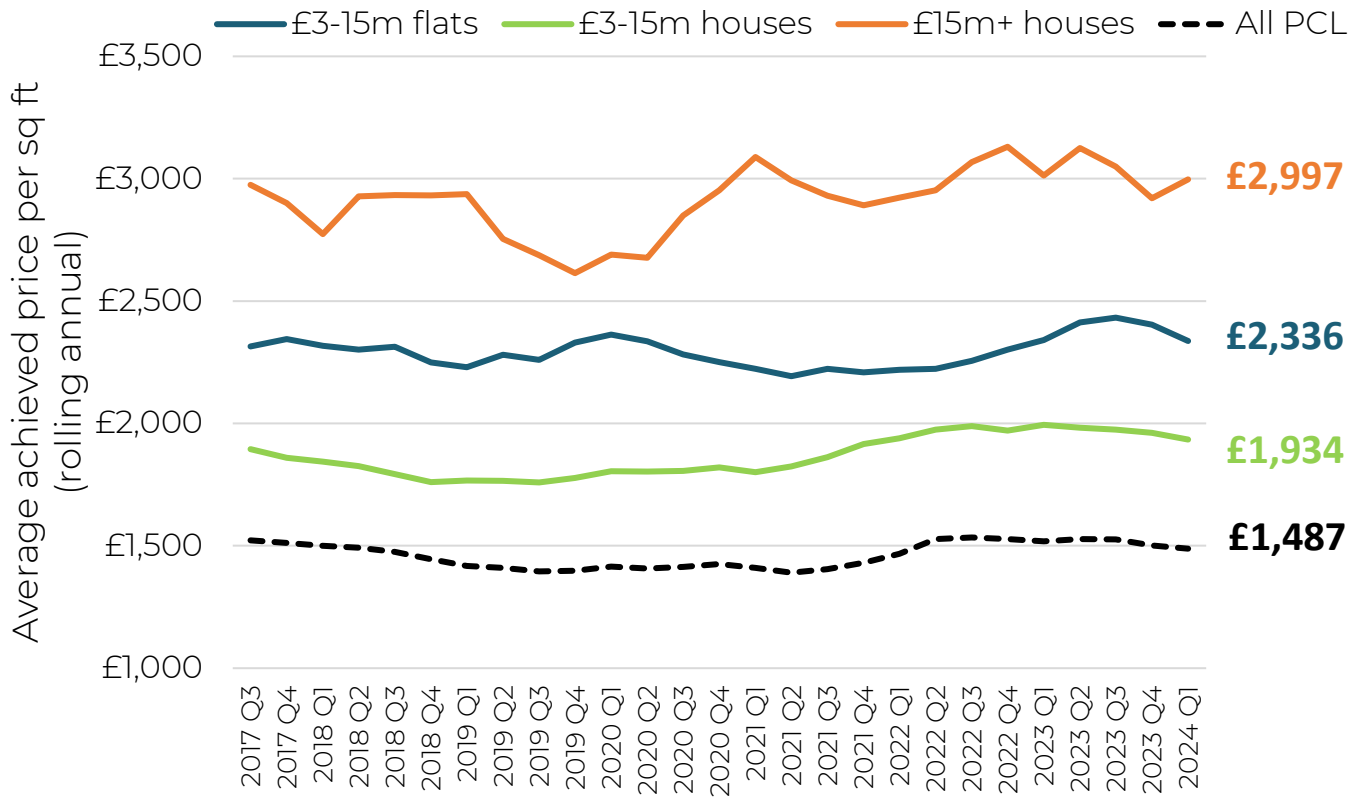


- London is a global city with market participants from all over the world.
- Nominal price movements in sterling therefore do not necessarily reflect the effective price for buyers holding wealth in other currencies.
- This chart shows the effective price movements of PCL property in a range of major currencies.
- In Sterling values are around 7% below the 2015 peak, whereas the effective 'discount' over that same period in other currencies ranges from 5% in Yen to 32% in Swiss Francs.

Source: LonRes, OECD, Yahoo Finance

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

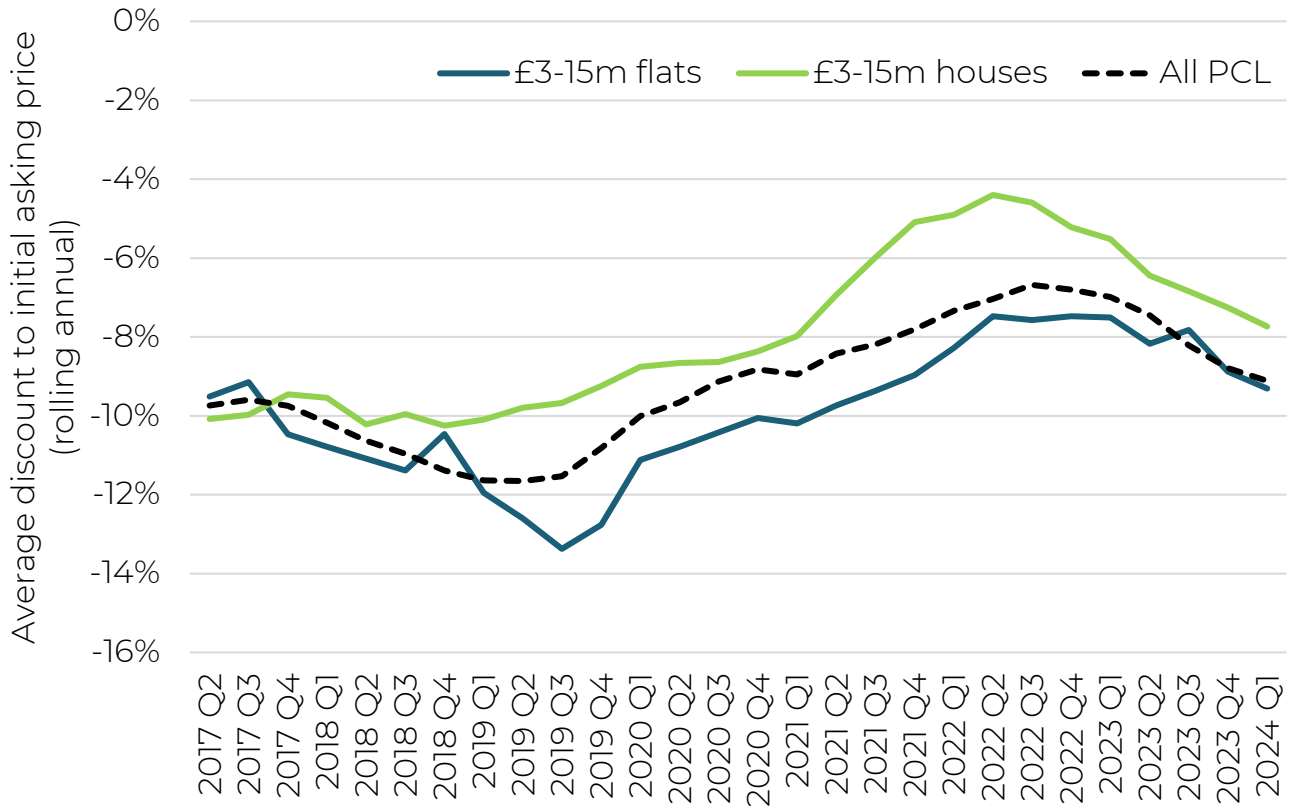
Achieved £ per sq ft by year



- On an annual basis, achieved values for PCL overall saw a 2% fall in Q1 (£1,487 vs £1,527 in Q1 2023).
- In the higher price bands the gap between flat and house values closed. £3-15m flat values were unchanged compared to a year earlier with £3-15m houses down 3%.
- £15m+ houses were down by 1% 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
  - +10% for £3-15m houses
  - +2% for £15m+ houses
  - +5% 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.

Source: LonRes

Average Discount to Asking Price

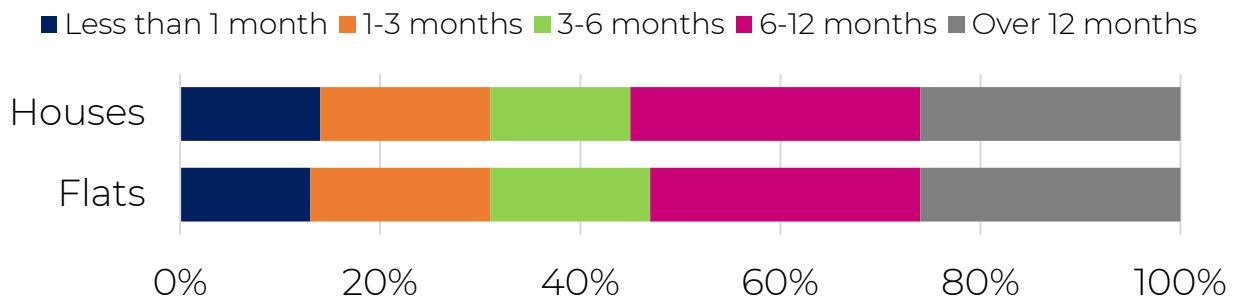


Source: LonRes

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

- Average discounts across PCL increased in Q1 to 9.1%, from 8.8% in Q4. This is the sixth consecutive quarterly increase.
- In the £3-15m markets, discounts for flats increased to 9.3%, and house discounts also increased, to 7.7%.
- The difference in average discounts between flats and houses in the £3-15m band was 1.6 percentage points, down from a peak of 3.9 at the end of 2021.
- The recent increases in average discount size reflect weaker buyer sentiment and market uncertainty.

Time on the Market



48.1%

Just under half of properties have been reduced

15.8%

Around 1 in 6 are currently under offer

+15.0%

Stock levels are higher than one year ago

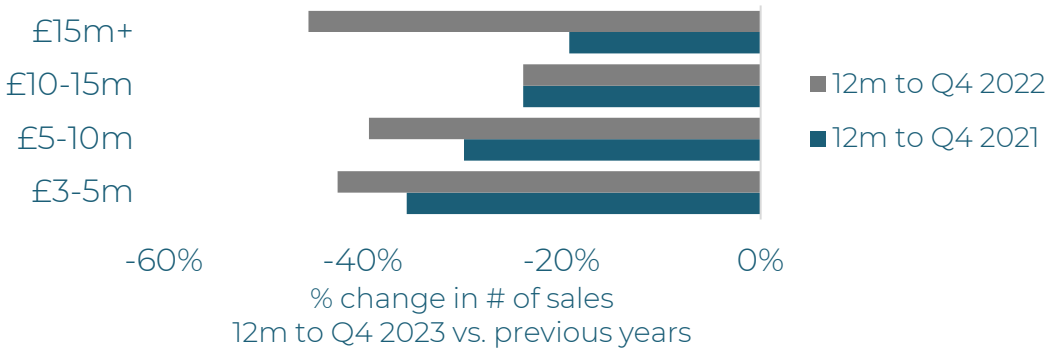
- For current listings in PCL*, 53% have been on the market for over 6 months (55% for houses; 53% for flats).
- This data indicates an average time on the market of around 8.3 months for both houses and flats.
- Stock levels rose on an annual basis, by 15.0%. This is due to slowing sales volumes and higher levels of new instructions compared to recent levels.

Source: LonRes, data for Q1 2024 only

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

Depth of Market

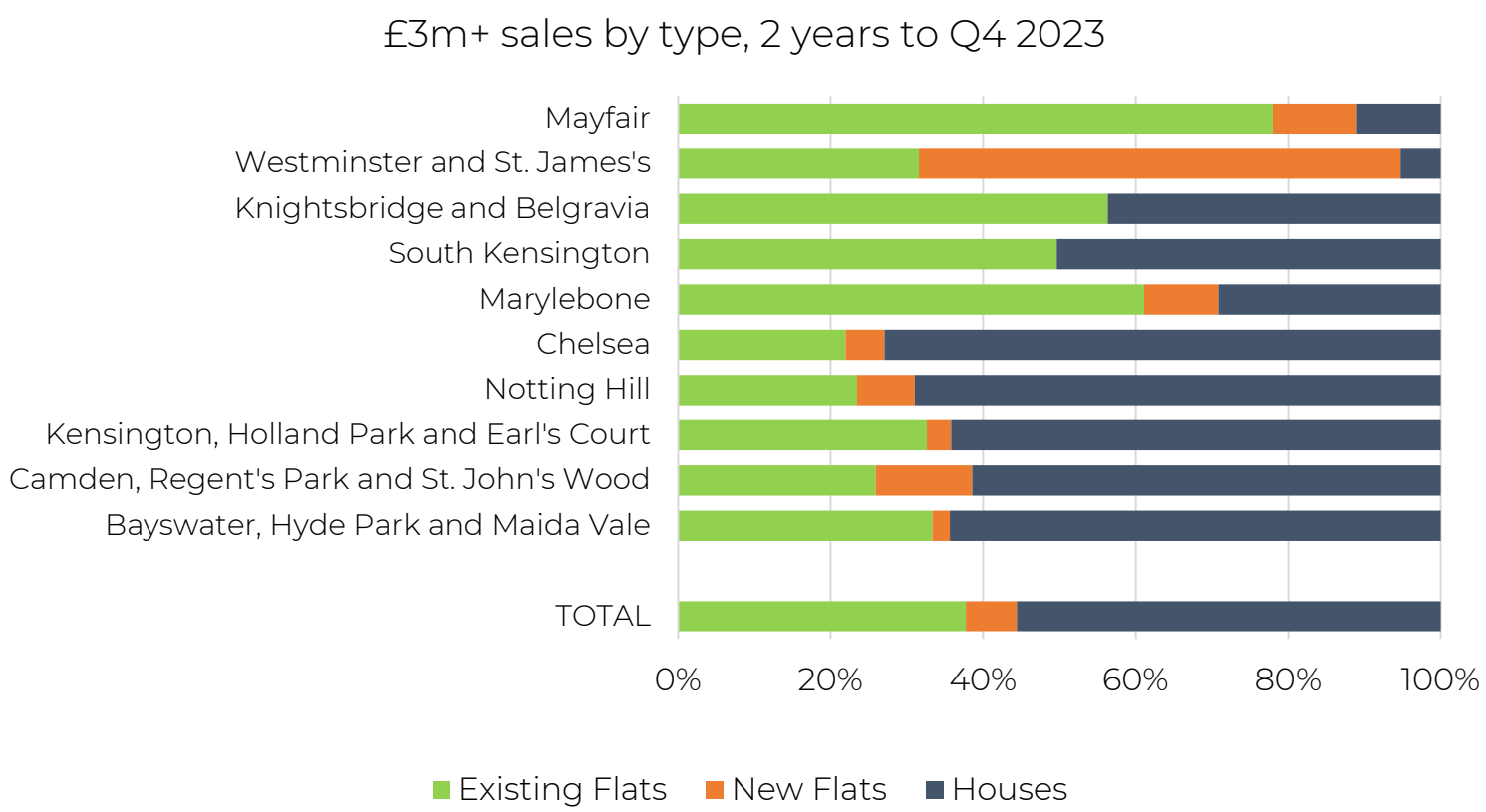
Price band	Existing flats	New flats	Houses*
£3-4m	101	10	97
£4-5m	40	6	50
£5-6m	27	4	48
£6-7m	14	5	34
£7-8m	11	1	14
£8-9m	9	2	12
£9-10m	6	1	12
£10-12.5m	7	3	19
£12.5-15m	7	4	11
£15-17.5m	2	3	9
£17.5-20m	1	0	5
£20-25m	0	1	6
£25-30m	0	0	2
£30-40m	2	1	4
£40-50m	0	1	3
£50m+	0	0	2
TOTAL	227	42	328



- The table shows £3m+ sales volumes by price band in the 12 months to Q4 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

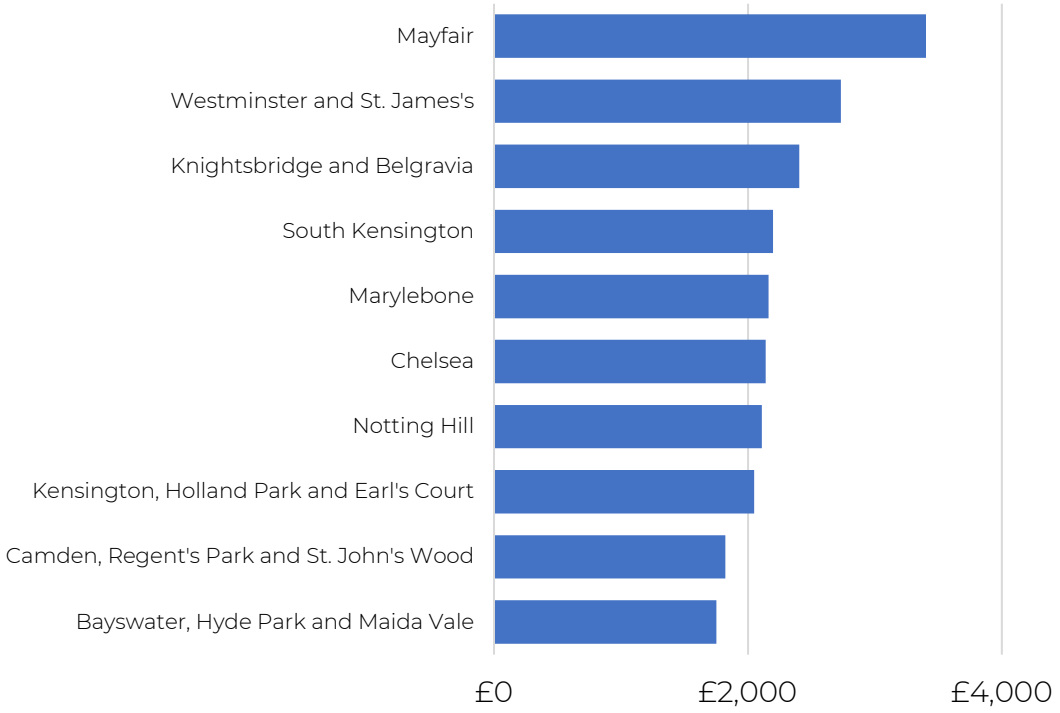


- New build homes have accounted for 7% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 56% to 44%.
- Westminster & St. James's had the highest proportion of new build activity over this period.

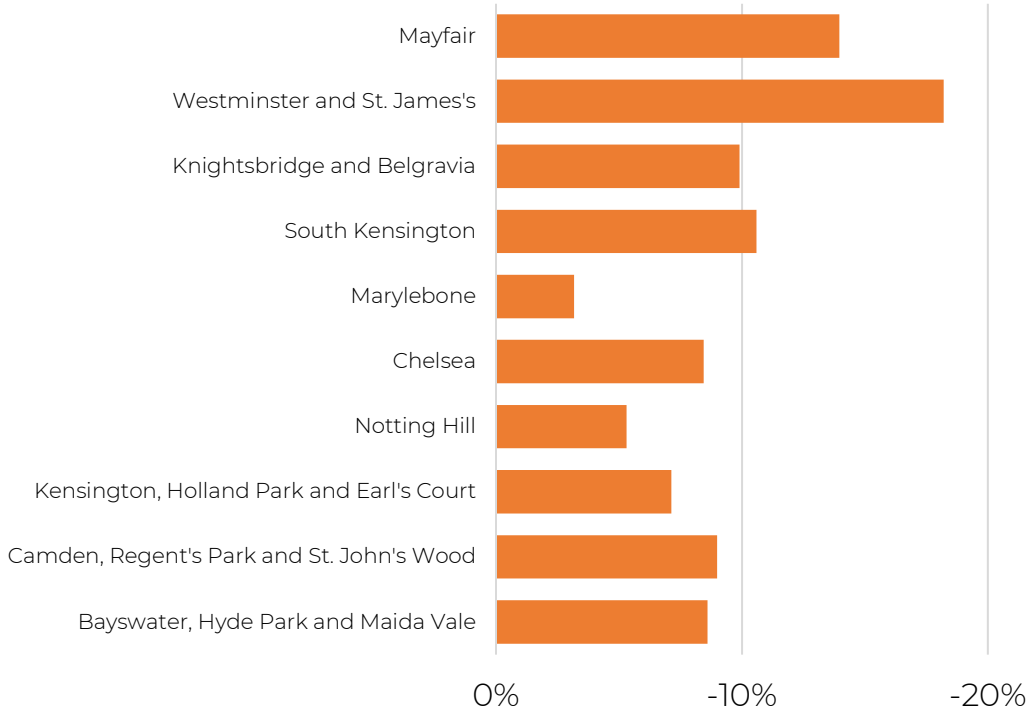
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq ft

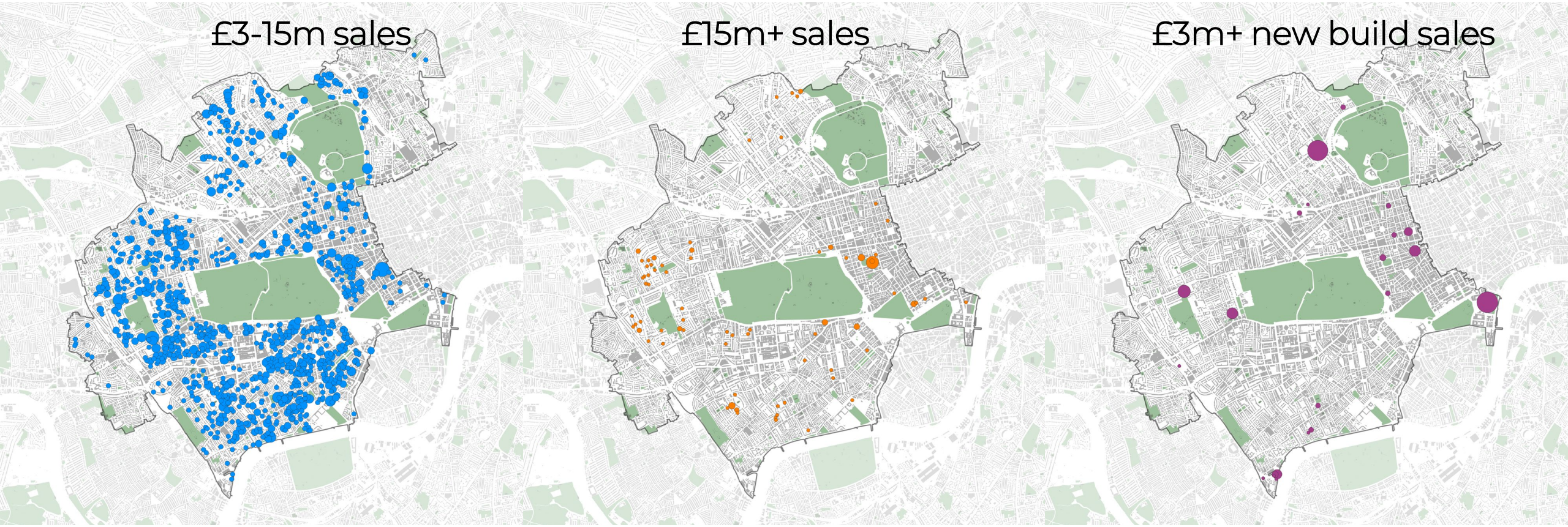


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q1 2024

Activity Maps



Source: OS OpenData, HM Land Registry

Notes: Size of dot = # of sales. All recorded sales Jan 2022 to Dec 2023. First two maps pre-owned only.

Forecast Summary

- After new forecasts all round in Q4, there were no changes to our tracked forecasters' published figures in Q1.
- Therefore, there remains a broad consensus for PCL price movements going forward. Savills expect PCL to be flat this year then grow strongly from 2025 to 2028, with a total rise over five years of 18.7%. JLL also expect no change in PCL values this year followed by strong growth, resulting in a five year rise of 19.8%. Knight Frank do forecast some growth in 2024 (+1%) but again with stronger rises from 2025 to 2028, with a total of 18.1% growth over the full five years.
- The five-year figures for the wider London mainstream market are also similar, but with different trajectories. Savills predict a 4% fall this year before a recovery to +13.9% over the five years to 2028. JLL 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's 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

Economy coming out of recession

UK GDP recorded small monthly rises in both January and February, raising hopes that the recession in the second half of last year was short-lived.

Sentiment in the property market is in a similar position – tentatively positive but fragile. Actual transaction data still looks slightly negative but results from surveys of both agents and buyers suggest demand is growing slowly.

Mortgage costs edging down

Average quoted fixed rate mortgage have fallen by over 100 basis points since last summer's peak. While there is lot of equity in the PCL market, many buyers either need or choose to use finance, so any cut in rates improves their buying power.

With inflation falling from a peak of over 11% in late 2022 to 3.4% in February, the financial markets expect two base rate cuts this year. This would further improve affordability and sentiment across the market, even for buyers who don't need finance.

Negative

Budget takes more than it gives

Last quarter we mentioned industry expectations that the Budget might boost the market via tax cuts. Instead, the net effect of the changes is likely to be mildly negative on demand for prime property.

It is the phasing out of 'non-dom' tax breaks that is potentially the most impactful change, giving a general signal that London is less welcoming to international investment. But even this has likely been priced in for a while due to it being a stated Labour policy and the expectation that they will be forming the next government.

BoE MPC member suggests rate cuts 'a way off'

At the March Monetary Policy Committee meeting there was only 1 vote out of 9 for a cut, suggesting cuts may not be imminent. In a recent FT article, MPC member Megan Greene argued that markets are still over-estimating the scope for cuts in base rate this year.

She explained that, although inflation has fallen the risk of it persisting in the UK is high due to high energy prices and the nature of our labour market. And concludes that "rate cuts in the UK should still be a way off".