

JUSTIN MASON

VALUATION • CONSULTANCY

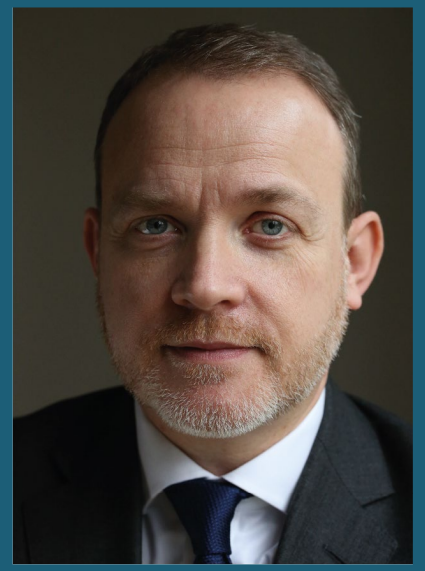
Prime Central London Update May 2022

Key Highlights

- Prime Central London* sales activity remained strong in Q1, with 175 transactions recorded by LonRes**. This is 5% up on Q1 2021's level of activity.
- On an annual basis, there were 784 sales above £3m in the 12 months to March 2022, 40% higher than a year earlier. While this comparison is impacted by a period of market closure during the initial lockdown, it is 54% 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 price growth continued in Q1. This is set to continue in the short-term, driven by the ongoing imbalance between demand and new supply. The recent trend of houses outperforming flats was less clear, with similar price growth for both in Q1, admittedly with flats coming off a lower base.
- Average discounts in PCL fell in Q1, continuing the trend since 2019. Broken down by property type, average discounts for houses remain smaller than for flats (4.3% as opposed to 8.1%), but the gap closed in Q1.
- Most agents' forecasts for PCL remain unchanged, meaning strong growth is expected in 2022 and five-year growth of over 20%. However, with inflation rising again, 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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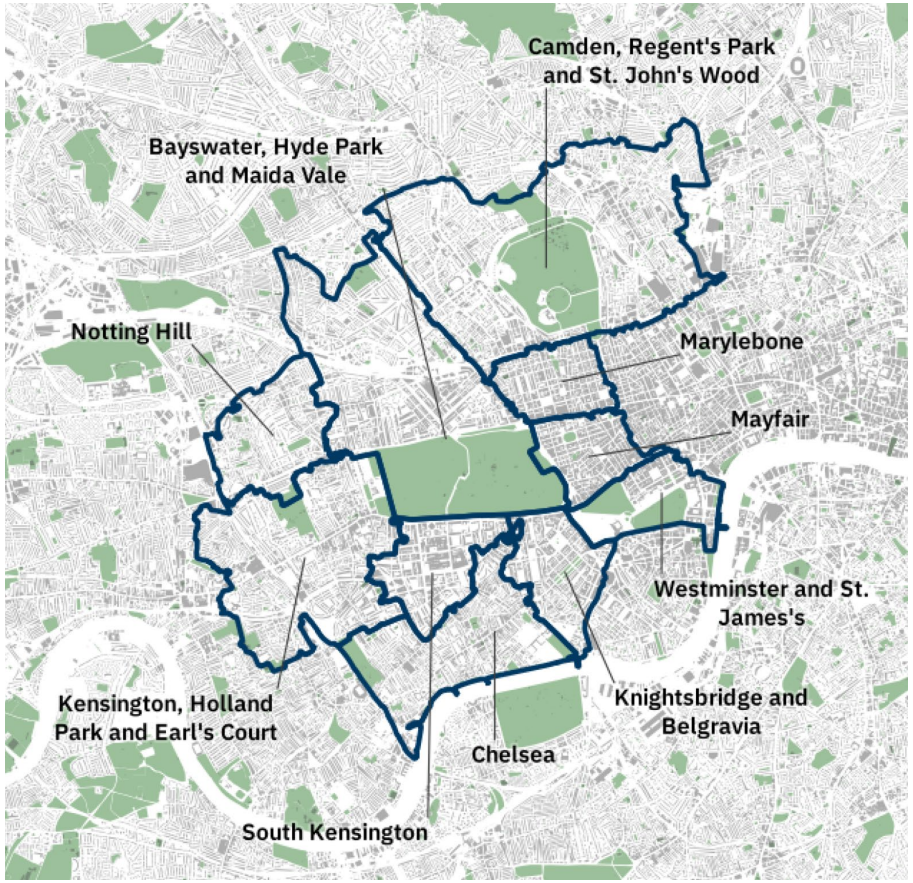


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Market Background

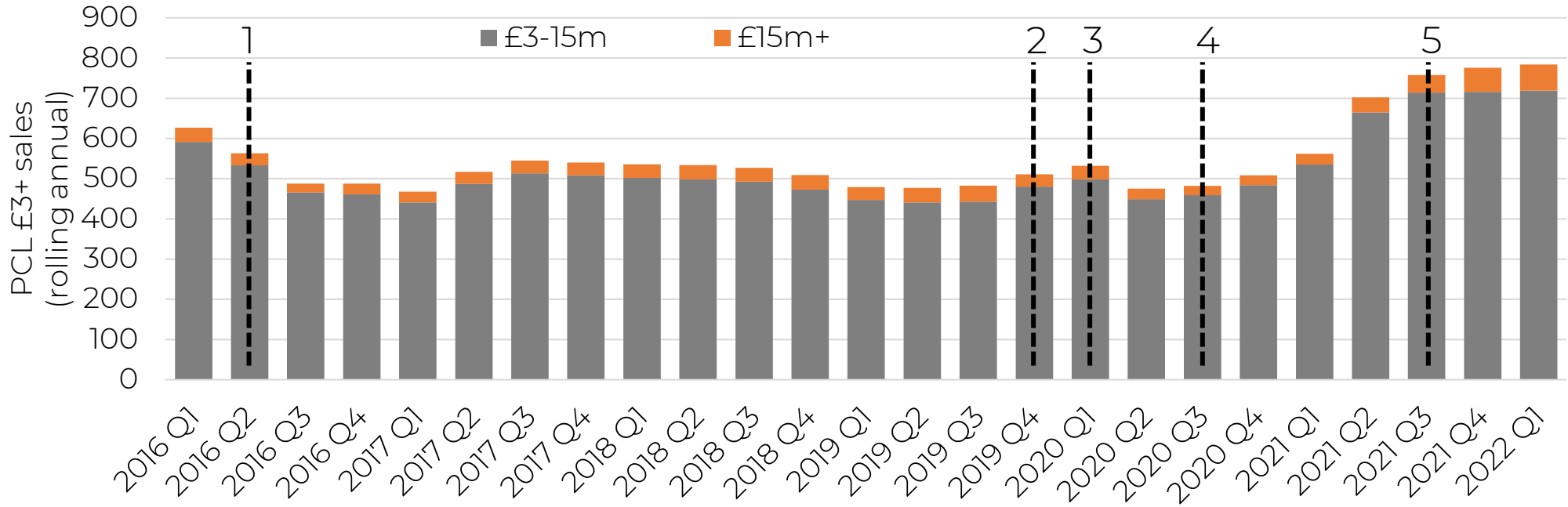


Area	Transactions (12m to Dec-21)	Compared to last Q (12m to Sep)
England	859,000	Down 174,000 (-17%)
London	103,000	Down 20,000 (-16%)
Camden, Westminster and RBKC	6,500	Down 1,200 (-15%)
PCL £3m+	660	Down 110 (-14%)

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



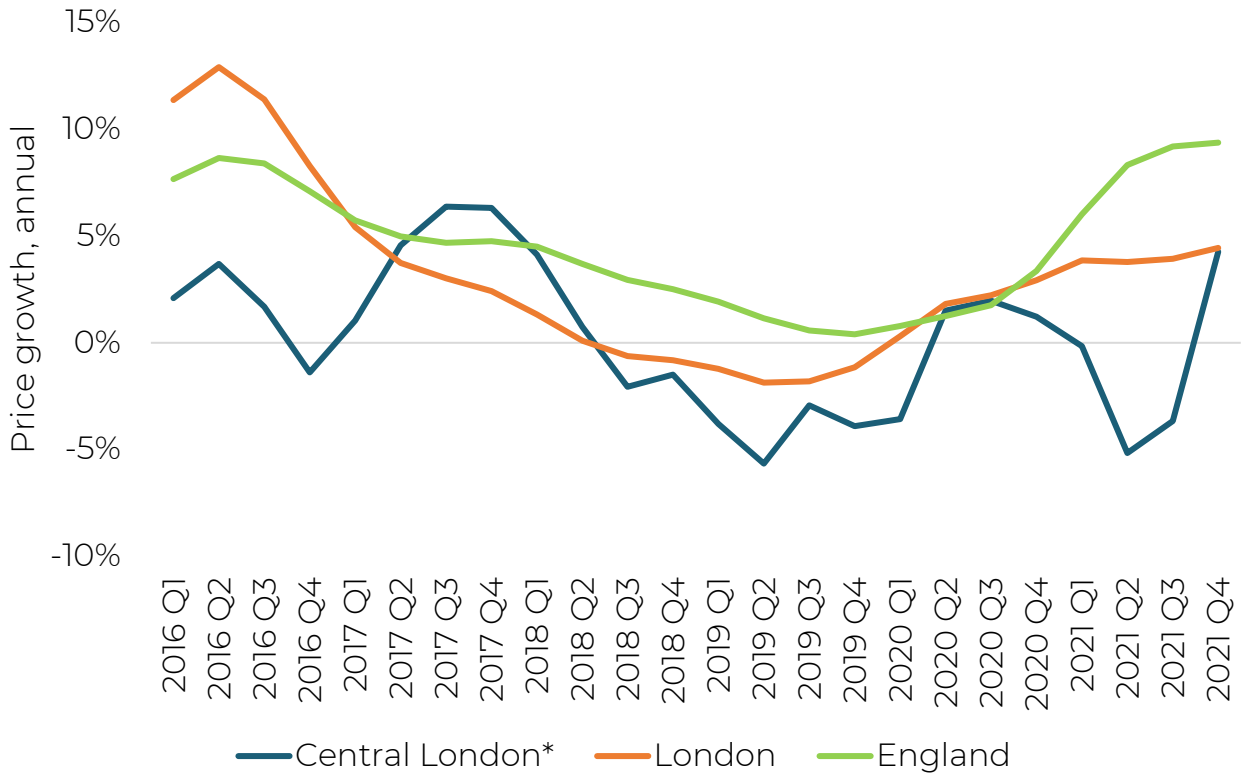
Source: LonRes

Q2 2016	Dec 2019	Mar 2020	Jul 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)

Transaction Trends

- PCL sales volumes continued to grow in Q1, both in the prime £3-15m and super prime £15m+ markets.
- In Q1 alone there were 175 transactions across both price bands, 16% lower than Q4 2021 but 5% higher than Q1 a year ago, based on LonRes data. This is a very strong result given the high levels of activity last year; before Q4 2020 you would have to go back to 2014 for a single quarter with over 175 sales.
- On an annual basis this took the totals to 719 prime transactions and 65 super prime, the highest since Q3 2014. The current level is 40% higher than a year earlier and 54% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.
- Economic growth stuttered in February (+0.1% month-on-month) as the recovery slowed slightly. These figures pre-date any impact from the war in Ukraine so, along with the emerging cost of living crisis, there could be further headwinds to growth in the short term.

House Price History

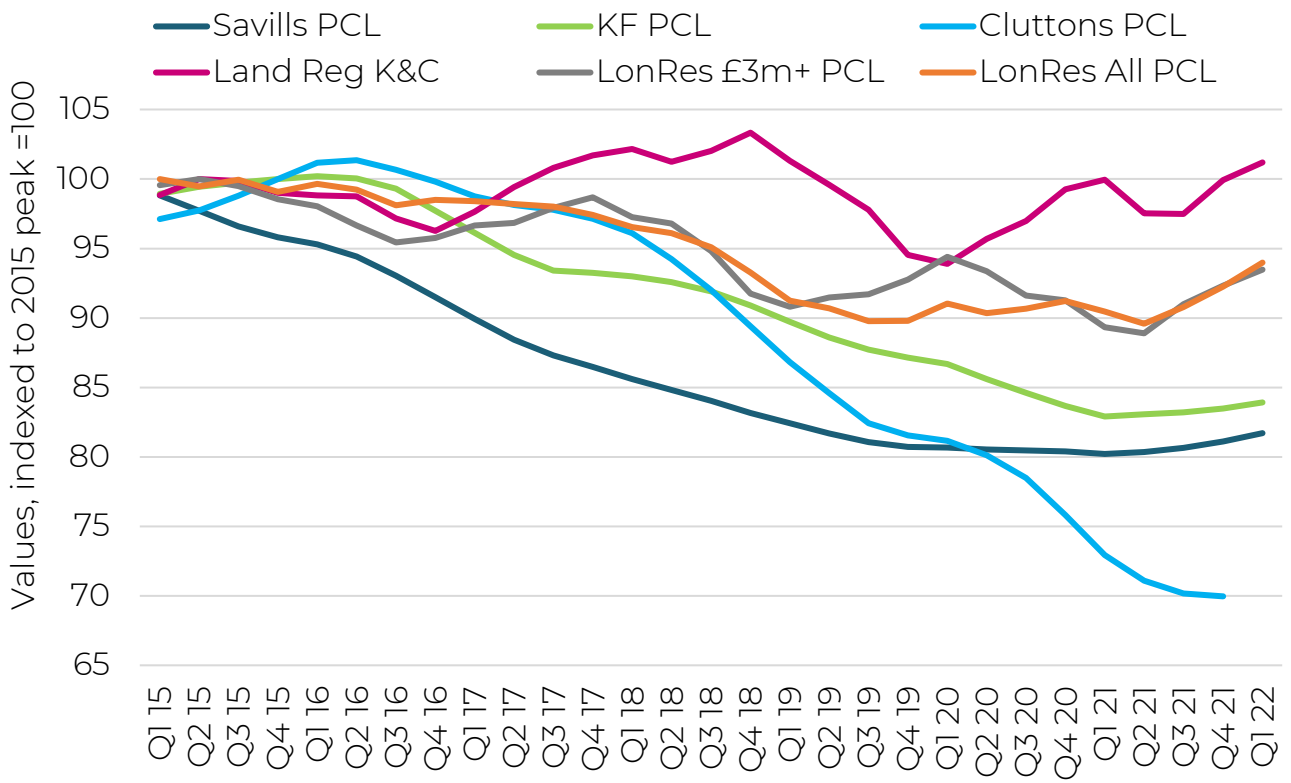


Source: ONS UK HPI (data smoothed, 6 months)

**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*

- House price growth accelerated further at national level in Q4, with some indices recording record high prices and rates of growth.
- Average values in the central London boroughs* returned to growth in Q4, bouncing back strongly with a 4.3% annual rise after falls in the previous three quarters.
- This brought central London approximately into line with growth in the wider London region (+4.4%), although national average house price growth remained significantly stronger at 9.4%.

Achieved Prices and Agents' Indices

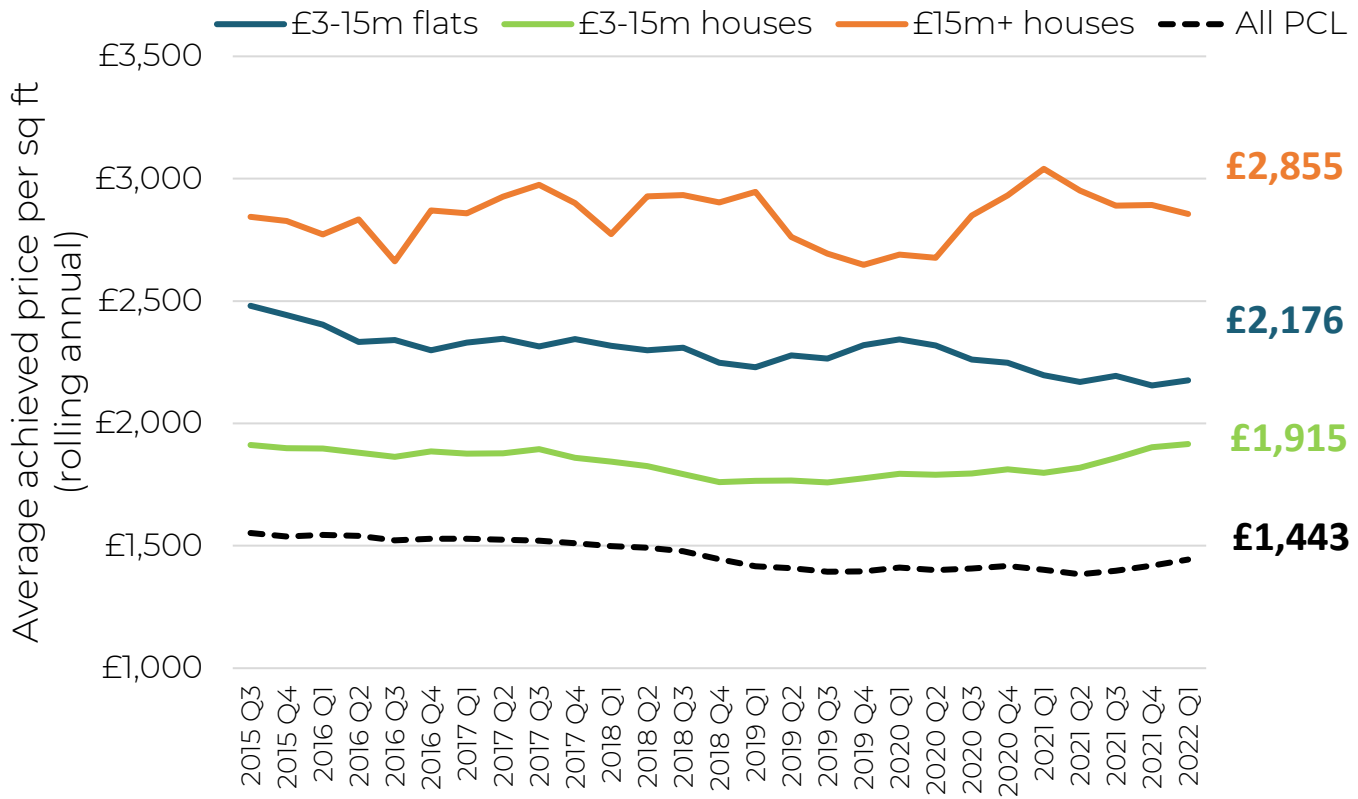


- This page looks at the opinion-based house price indices from central London agents.
- Also included on the chart for comparison is the Land Registry index for Kensington & Chelsea, based on completed sales, however this covers a different area and much wider range of house prices. This index continues to show higher relative performance, with values above 2015 levels.
- Savills and Knight Frank both reported quarterly rises around 1% in Q1, with annual growth reaching 2 to 4%.
- LonRes achieved £ per sq ft data is included on the chart for comparison. Their 'Q1 Market Review' reported that achieved prices across all PCL grew by 6.8% on an annual basis.

Source: Land Registry, Savills, Knight Frank, LonRes

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

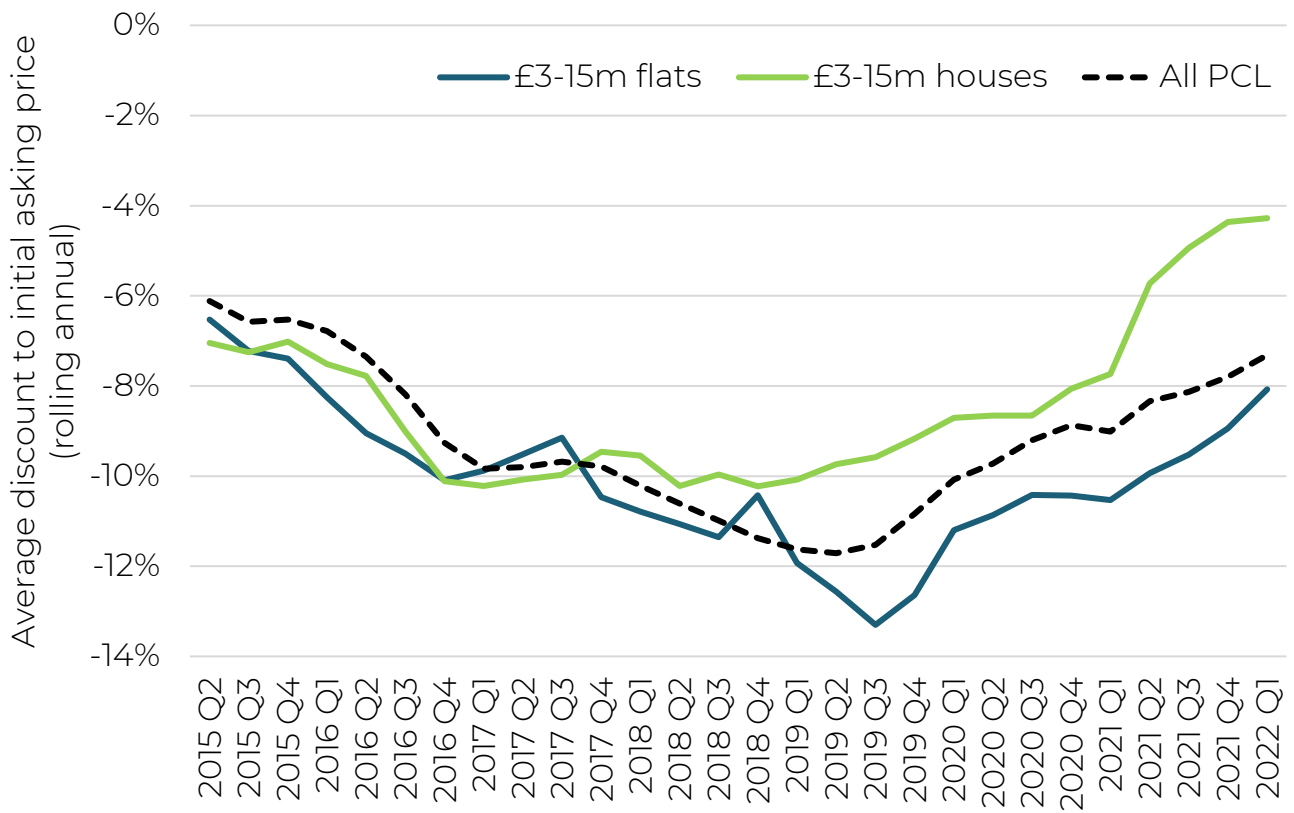
Achieved £ per sq ft by year



- On an annual basis, achieved values for PCL overall saw a 3% rise (£1,443 in Q1 2022 vs £1,402 in Q1 2021), 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 1% compared to a year earlier and £3-15m houses up by 7%.
- £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
  - +2% for £3-15m houses
  - No change 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.

Source: LonRes

Average Discount to Asking Price

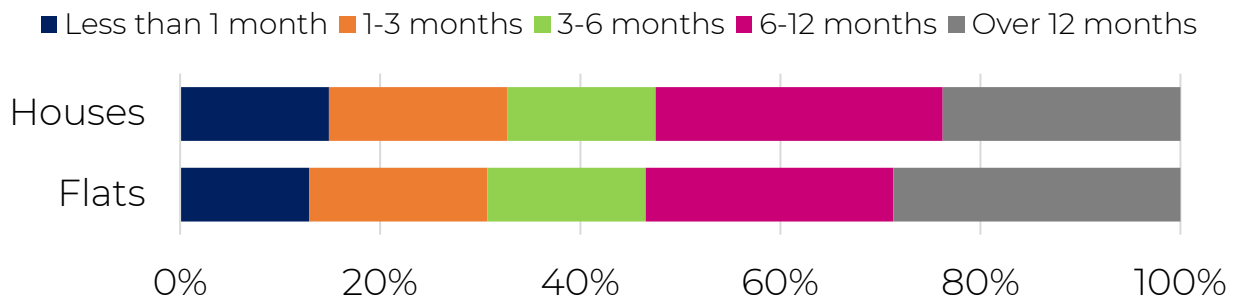


Source: LonRes

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

- Average discounts across PCL fell in Q1 to 7.3%, continuing the trend since 2019.
- In the £3-15m markets discounts decreased again in Q1 for both property types. The average discount for £3-15m houses fell to 4.3%, the lowest since the data series began in 2013. Flat discounts in this price band fell to an average of 8.1%, a six-year low.
- The difference in average discounts between flats and houses in the £3-15m band fell back to 3.8 percentage points, from a peak last quarter of 4.6.

Time on the Market



43.6%

Over 2 in 5 properties have been discounted

18.2%

Over 1 in 6 are currently under offer

-14.3%

Stock levels are lower than one year ago

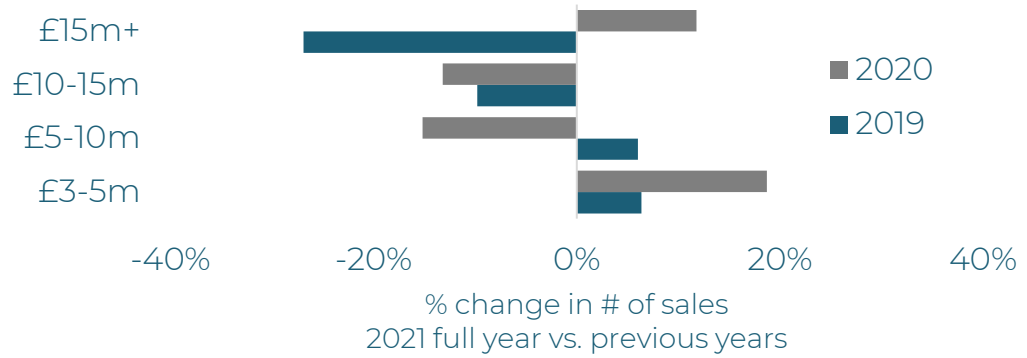
- For current listings in PCL*, 54% have been on the market for over 6 months (53% for houses; 54% for flats).
- This data indicates an average time on the market of around 8.0 months for houses and 8.6 months for flats.
- Stock levels fell on an annual basis by 14.3%. New instructions are in line with typical levels, but this is not sufficient to keep pace with current levels of sales activity.

Source: LonRes, data for Q1 2022 only

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

Depth of Market

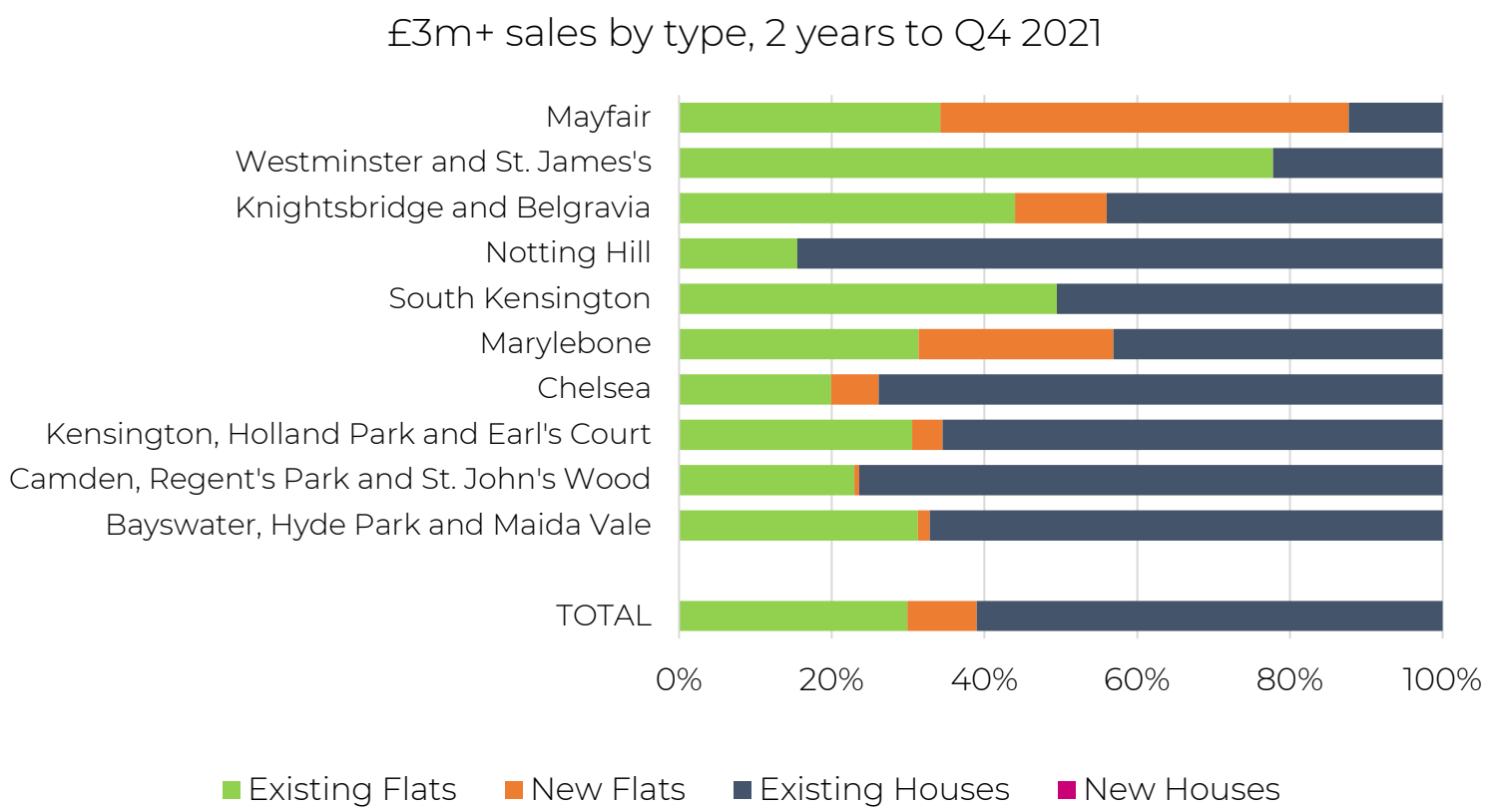
Price band	Existing flats	New flats	Existing houses	New houses
£3-4m	82	3	128	0
£4-5m	51	1	103	0
£5-6m	22	4	62	0
£6-7m	13	1	31	0
£7-8m	9	1	23	0
£8-9m	6	0	29	0
£9-10m	1	1	9	0
£10-12.5m	6	2	21	0
£12.5-15m	3	1	13	0
£15-17.5m	2	1	10	0
£17.5-20m	1	1	3	0
£20-25m	0	1	10	0
£25-30m	0	0	4	0
£30-40m	1	0	2	0
£40-50m	0	0	0	0
£50m+	2	0	0	0
TOTAL	199	17	448	0



- The table shows £3m+ sales volumes by price band in the 12 months to Q4 2021, according to Land Registry completions data. A comparison to the trends in the two previous years is shown in the chart.
- Relative to previous years, activity over the past 12 months is up in the £3-5m markets, with a more mixed picture at higher price points.
- 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

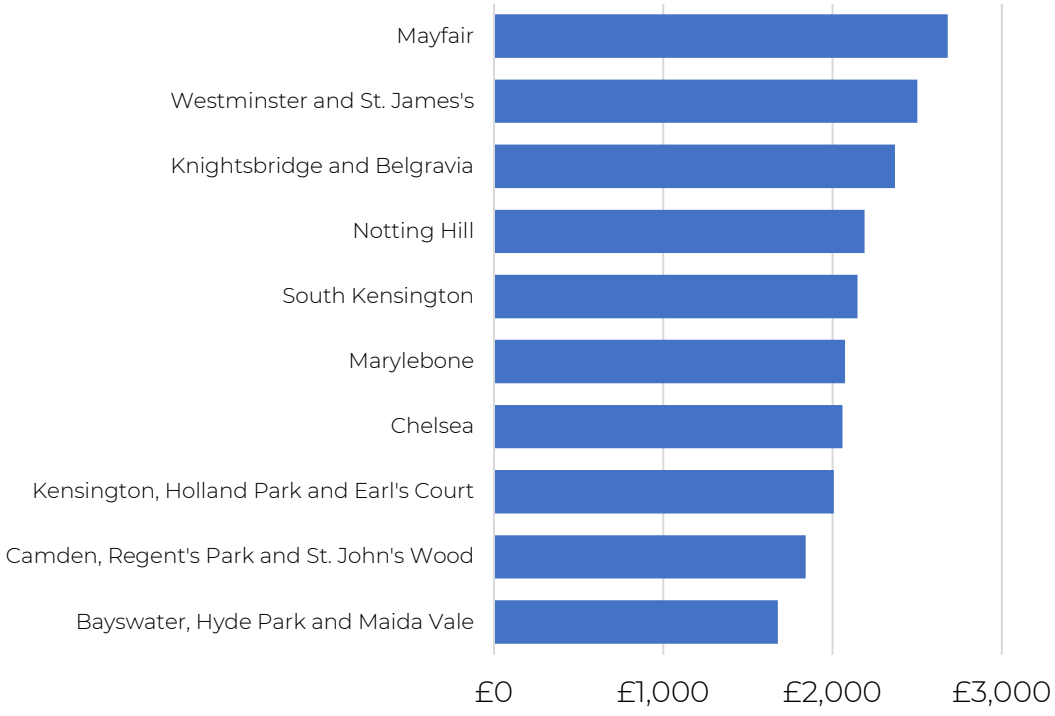


- New build homes have accounted for 9% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 61% to 39%.
- Mayfair had the highest proportion of new build activity, followed by Marylebone and Knightsbridge and Belgravia.

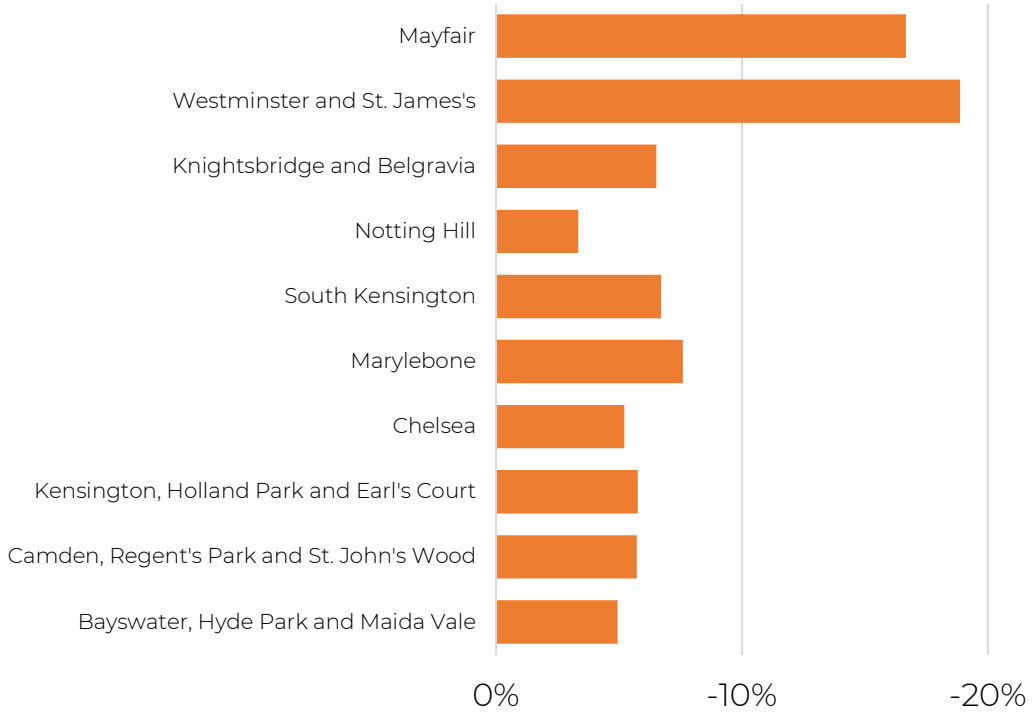
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq. ft.

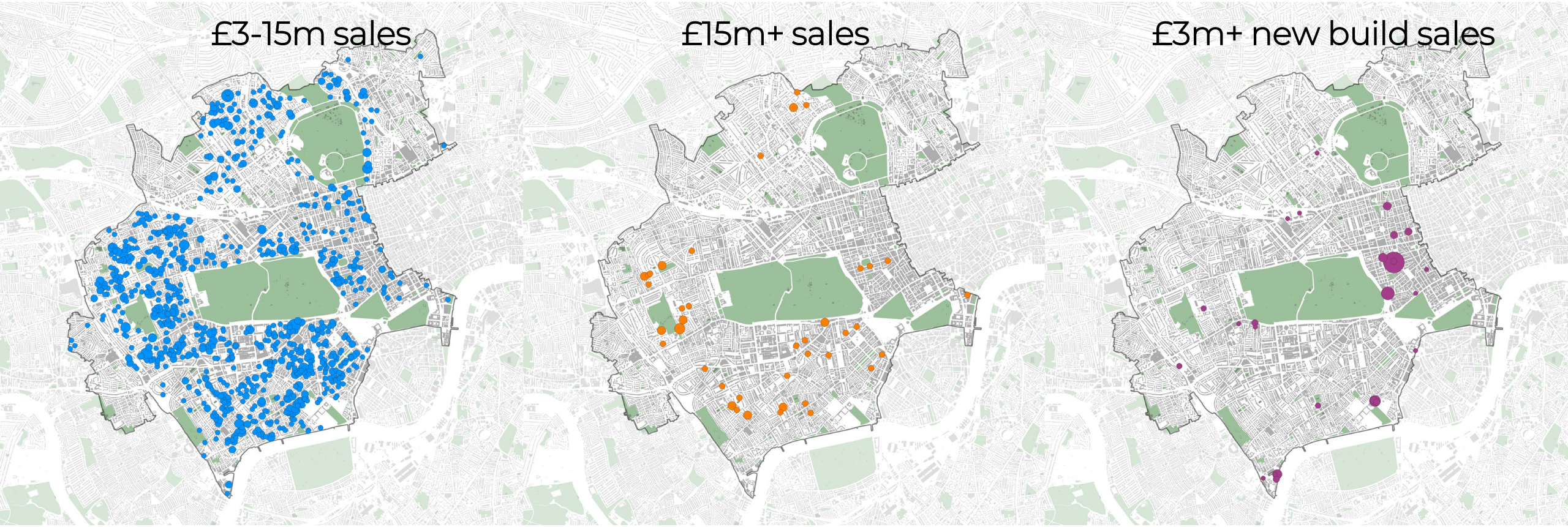


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q1 2022

Activity Maps



Source: OS OpenData, HM Land Registry only.

Notes: Size of dot = # of sales. All recorded sales Jan 2020 to Dec 2021. First two maps pre-owned

Forecast Summary

- There have been limited updates to the agents' forecasts in 2022 so far, a change compared to the repeated reforecasting that took place during 2020 and 21 in response to the pandemic and related economic uncertainty.
- Knight Frank are the only agent to release completely new forecasts. They have pushed the expected recovery in PCL values back again, with muted growth in 2022 followed by larger rises in 2023 and 24. They noted that this is mainly due to overseas demand recovering more slowly than anticipated.
- All the other, unchanged, PCL forecasts start with strong growth in 2022 and the first quarter index results are very much in line with those expectations so far. Savills reviewed their prime forecasts in April but kept their PCL figures unchanged.
- For Greater London, the forecasts for 2022 are more pessimistic but cover a wide range, and performance so far this year is towards the higher end. Emerging concerns around the cost of living and mortgage rate increases are more likely to impact values in the mainstream markets compared to prime.
- An important point to note is that all these figures are nominal. Over recent years, inflation has been very low, but CPI reached 7.0% in March, the highest figure since 1992. Further rises are possible 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	*Apr 2022*	8.0%	4.0%	2.0%	4.0%	4.0%	**23.9%**
	Knight Frank	*Apr 2022*	3.5%	6.0%	5.0%	3.0%	3.0%	**22.2%**
	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%**
Prime Outer London	Savills	*Nov 2021*	4.0%	3.0%	2.0%	2.0%	2.0%	**13.7%**
	Knight Frank	*Apr 2022*	4.0%	3.0%	3.0%	2.5%	3.5%	**15.9%**
	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.

Risks and Outlook

Positive

Demand staying strong

The strong demand seen through 2021 showed no signs of fading in Q1. Domestic purchasers are still driving this, with demand from overseas buyers recovering at a relatively moderate rate so far.

Looking ahead, international purchases could continue to grow slowly as different parts of the globe return to normal at different speeds.

London as a safe haven

Despite the proposed changes to ownership legislation, there are not yet any signs that high net worth owners are lining up to leave the prime London property market.

Over the last few years the market has proven relatively resilient in the face of policy and tax changes. London's pull factors – language, legal system, time zone, schooling – will continue to attract inward investors. Global geopolitical issues may create market uncertainty but London's safe haven status means its appeal should endure.

Negative

Limited supply

Higher activity over the past few quarters has not been matched by new supply coming to market, with growing prices not yet tempting potential vendors.

The key issue is reluctance from those looking to move home, as distinct from investors or second home owners. They don't want to list until they see a better choice of homes for sale, meaning the lack of supply creates a vicious circle, potentially limiting activity going forward.

Uncertainty closer to home

Inflation is moving towards double digits despite economic growth stuttering, and interest rates are set to rise throughout the year.

Any prolonged political and economic uncertainty could slow down the domestic demand that has been growing over the past two years.