

JUSTIN MASON

VALUATION • CONSULTANCY

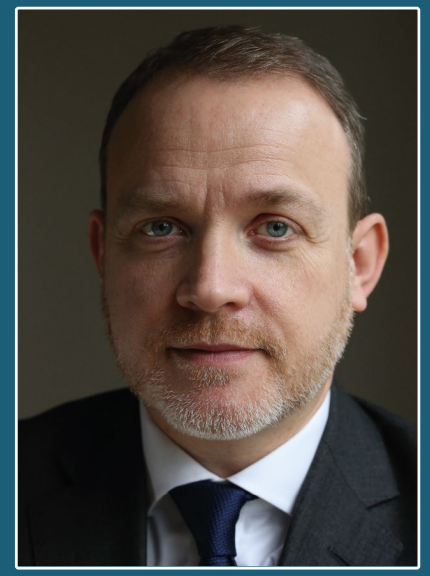
Prime Central London Update May 2023

Key Highlights

- Prime Central London* sales activity fell significantly in Q1 2023, with 132 transactions recorded by LonRes**. This is 35% down on sales volumes in Q4 2022.
- There were 765 sales above £3m in the 12 months to March 2023, 7% lower than one quarter earlier but 50% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Values were broadly unchanged again in Q1. LonRes reported a small increase in achieved average £ per sq ft for £3m+ properties, and the agents' opinion-based indices were approximately flat. The value gap between houses and flats on a £ per sq ft basis widened for the third quarter in succession, after more than two years of closing.
- Average discounts in PCL increased slightly in Q1, the second quarterly rise after three years of falls. Broken down by property type, average discounts for prime houses remain smaller than for flats (5.3% vs. 7.5%), but the recent trend of this gap closing continued.
- The forecasting environment saw minimal activity in Q1, with most agents' figures unchanged. 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.

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Market Background

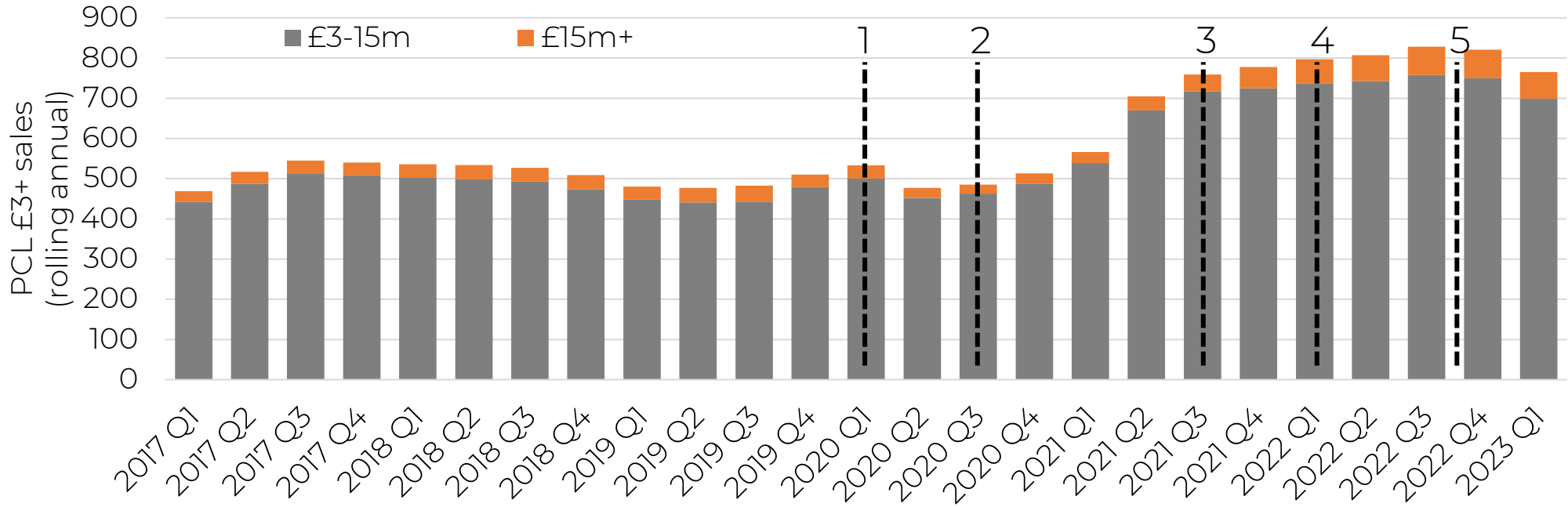


Area	Transactions (12m to Dec-22)	Compared to last Q (12m to Sep-22)
England	736,000	Down 33,000 (-4%)
London	88,000	Down 1,000 (-1%)
Camden, Westminster and RBKC	6,400	Down 100 (-2%)
PCL £3m+	790	Down 70 (-8%)

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



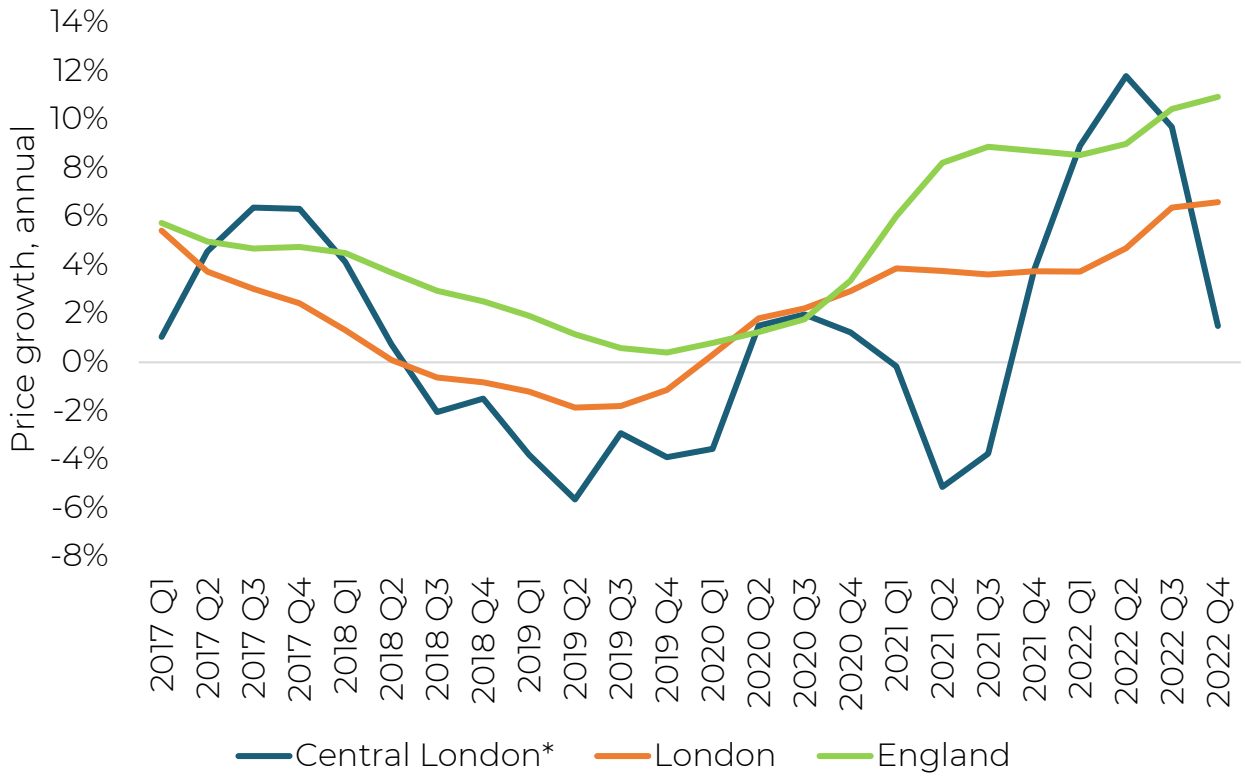
Source: LonRes

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

- £3m+ activity in PCL in Q1 2023 was significantly down on Q4 2022, with the lowest number of transactions since the lockdown-affected Q3 2020. This was driven by the prime £3-15m price band, with the £15m+ super prime market faring better.
- In Q1 there were 132 transactions across both price bands, 35% lower than Q4 2022 and 30% lower than Q1 a year ago, based on LonRes data.
- There were 699 recorded prime sales and 66 super prime over the past 12 months. The total figure of 765 transactions is 7% down on those in the 12 months to December 2022. Despite these falls, the current level is 50% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.
- Activity in the prime London market in general appears to be slowing after two very strong years, with sales figures in the year so far back in line with the levels seen in 2017 through to 2019. The £3m+ PCL market is no different so, while the headline figures above may indicate a weakening market, it is in fact more of a return to 'normal' trends.

House Price History

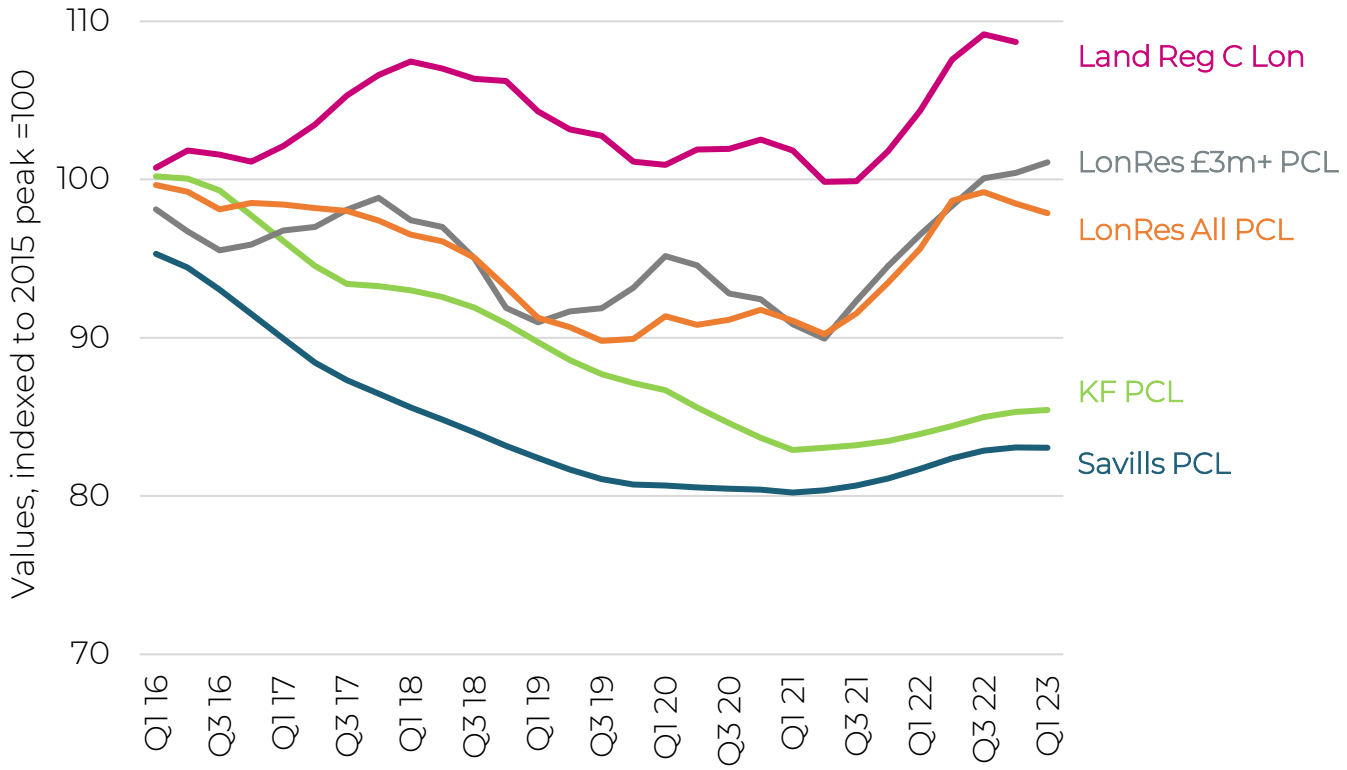


Source: ONS UK HPI (data smoothed, 6 months)

**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 Q4 to 10.9% annual (from a revised 10.4% in Q3), according to the ONS index for England.
- Price rises in central London boroughs* slowed significantly in Q4, with annual growth of 1.5%, down from 9.7% the previous quarter.
- Growth for the wider London region continued to lag the national average, increasing slightly to 6.6%.

Achieved Prices and Agents' Indices



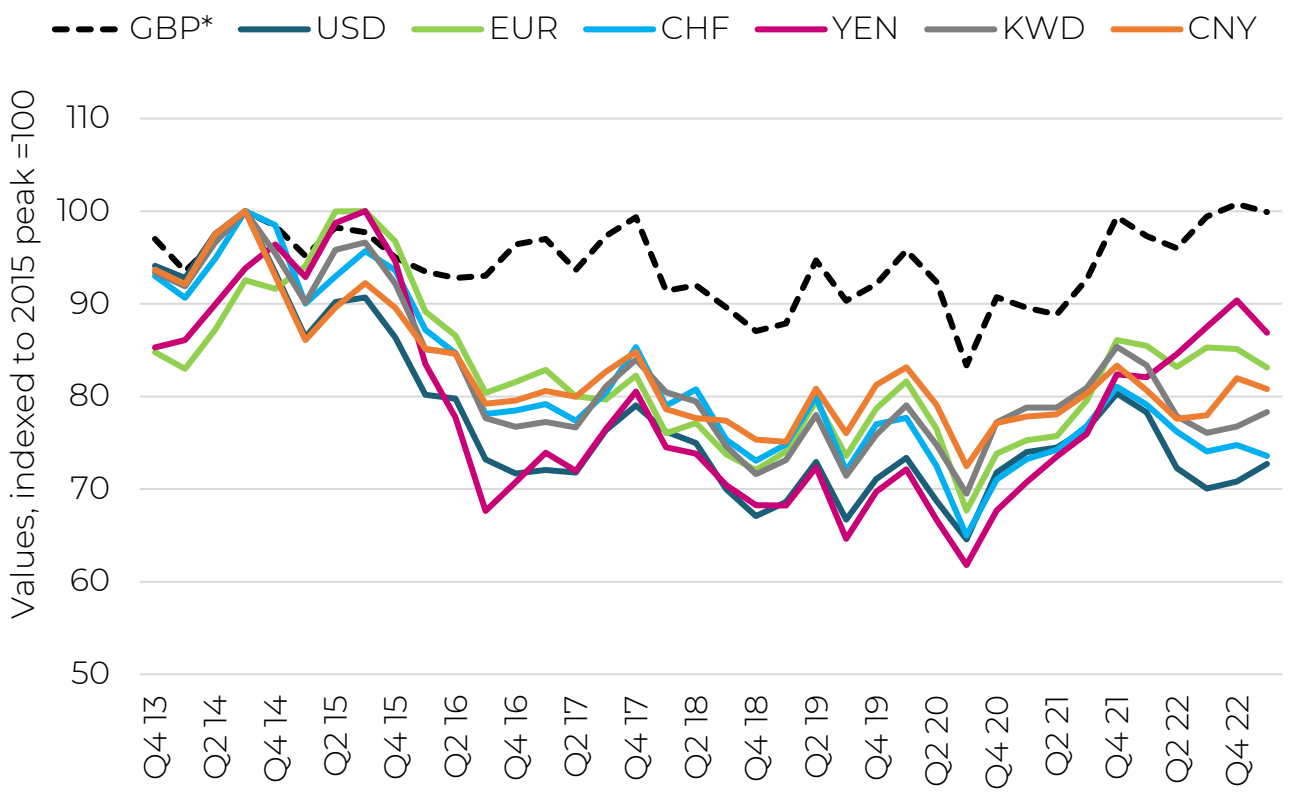
Source: Land Registry, Savills, Knight Frank, LonRes

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 very little change in values in Q1.
- LonRes achieved £ per sq ft data is included on the chart for comparison, recording higher levels of growth. Higher value properties saw value growth while the wider 'All PCL' figure fell in Q1, reflecting lower agreed sale prices under £3m.

Pricing in Other Currencies

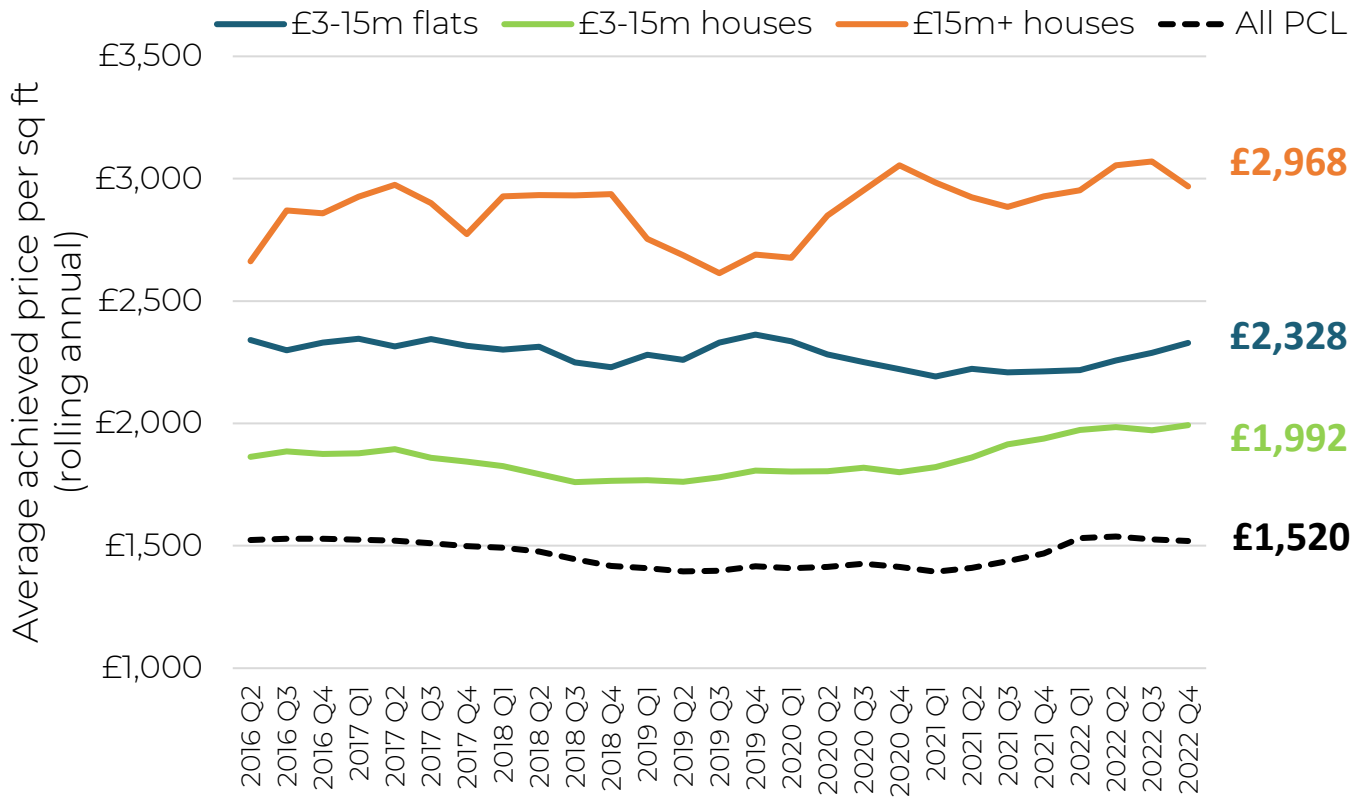


- London is a global city with market participants from all over the world.
- Nominal price movements in sterling therefore do not necessarily reflect the effective price for buyers holding wealth in other currencies.
- This chart shows the effective price movements of PCL property in a range of major currencies.
- Even in the most 'expensive' currency, Japanese Yen, prime London homes are around 13% below their 2015 peak, compared to no change in sterling. In US dollars the equivalent figure is -27%.

Source: LonRes, Yahoo Finance

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

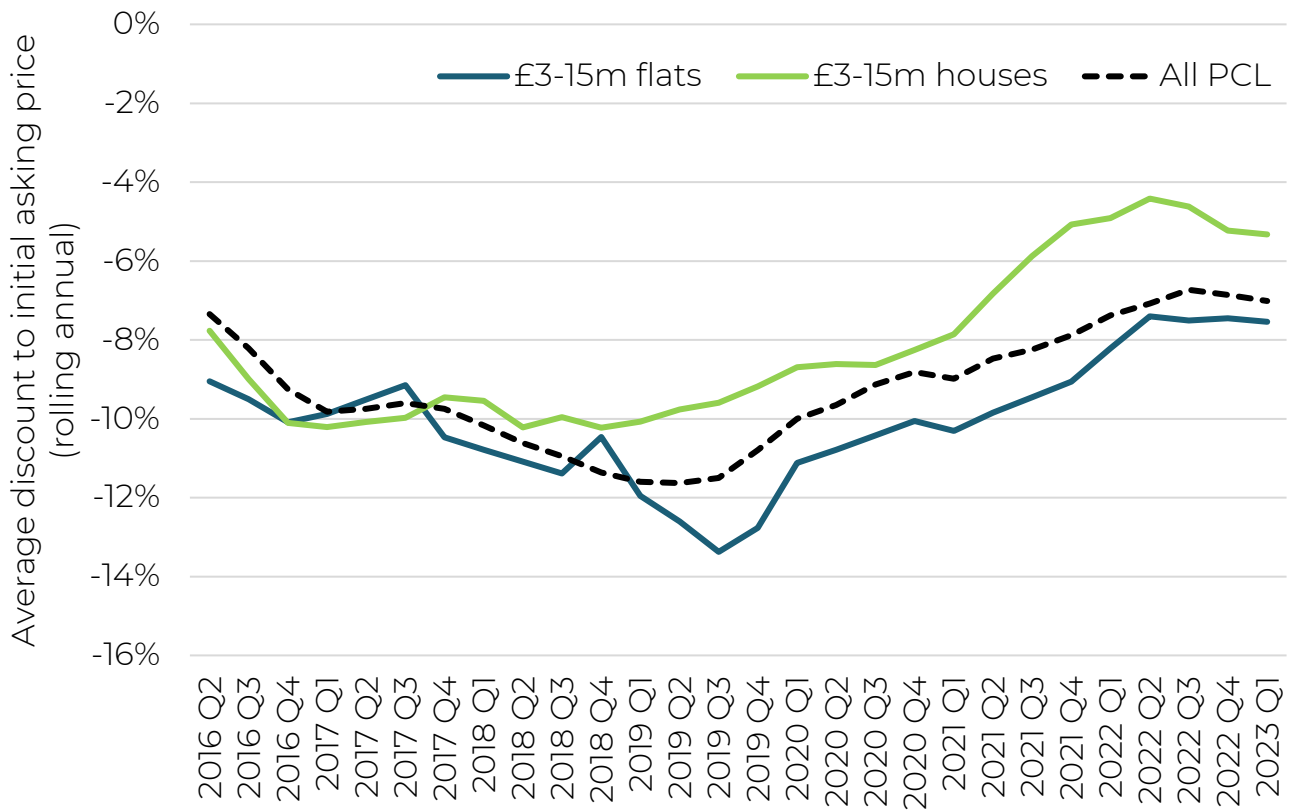
Achieved £ per sq ft by year



Source: LonRes

- On an annual basis, achieved values for PCL overall saw a 4% rise in Q1 (£1,520 vs £1,468 in Q1 2022).
- In the higher price bands the gap between flat and house values widened for the third quarter in a row (after closing for the previous nine). £3-15m flat values were up 5% compared to a year earlier with £3-15m houses up 3%.
- £15m+ houses were up 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:
  - +1% for £3-15m flats
  - +8% for £3-15m houses
  - +7% 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 value of sales agreed since 2015 compared to the opinion-based indices.

Average Discount to Asking Price

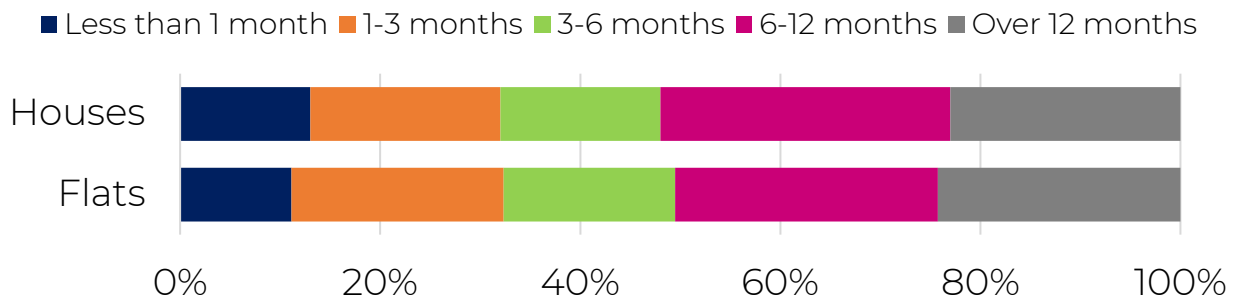


Source: LonRes

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

- Average discounts across PCL increased slightly in Q1 to 7.0%. This is the second small quarterly increase in a row but discounts remain below longer-term trend levels.
- In the £3-15m markets, discounts for flats were unchanged at 7.5% again, while houses increased slightly to 5.3%.
- The difference in average discounts between flats and houses in the £3-15m band was 2.2 percentage points, down from a peak of 4.0 at the end of 2021.
- Growing discounts were in part driven by weakening buyer sentiment, following economic and political uncertainty in the second half 2022 and into 2023 and higher levels of vendor expectation.

Time on the Market



47.1%

Almost half of properties have been discounted

16.9%

Around 1 in 6 are currently under offer

+6.6%

Stock levels are higher than one year ago

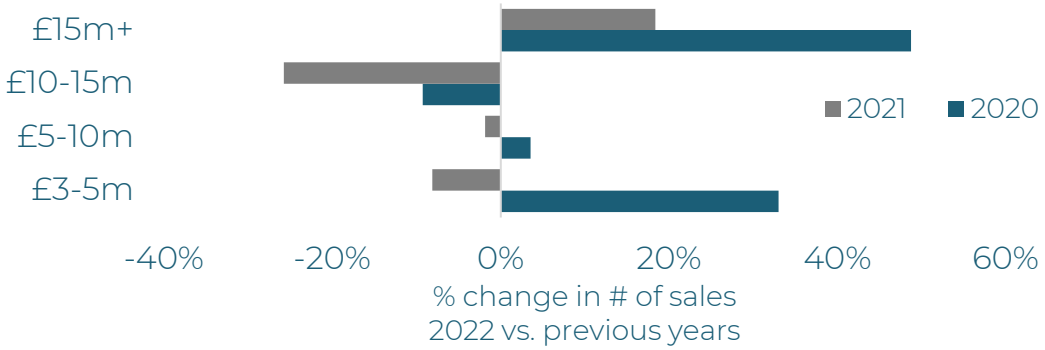
Source: LonRes, data for Q1 2023 only

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

- For current listings in PCL*, 51% have been on the market for over 6 months (52% for houses; 50% for flats).
- This data indicates an average time on the market of around 7.9 months for both houses and flats.
- Stock levels rose slightly on an annual basis, by 6.6%. New instructions in Q1 were very high compared to recent levels, with new vendors perhaps driven by the market's strong performance over previous quarters or reflecting less confidence amongst buyers.

Depth of Market

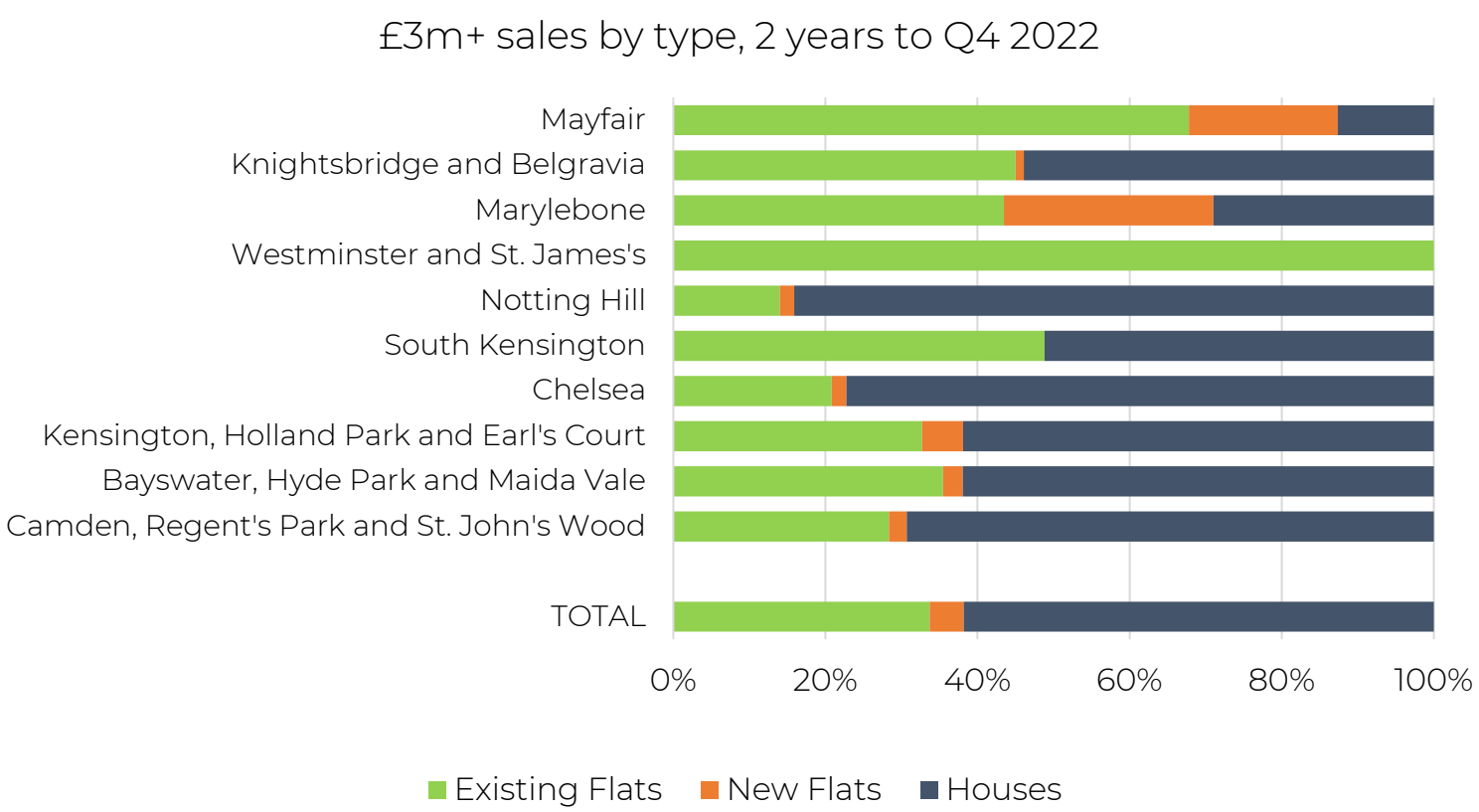
Price band	Existing flats	New flats	Houses*
£3-4m	103	15	145
£4-5m	65	10	118
£5-6m	26	6	72
£6-7m	17	1	47
£7-8m	12	0	28
£8-9m	7	3	28
£9-10m	2	6	13
£10-12.5m	6	9	29
£12.5-15m	6	1	15
£15-17.5m	3	1	11
£17.5-20m	1	1	3
£20-25m	3	2	9
£25-30m	2	0	4
£30-40m	1	2	3
£40-50m	1	0	0
£50m+	2	0	0
TOTAL	257	57	525



- The table shows £3m+ sales volumes by price band in 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

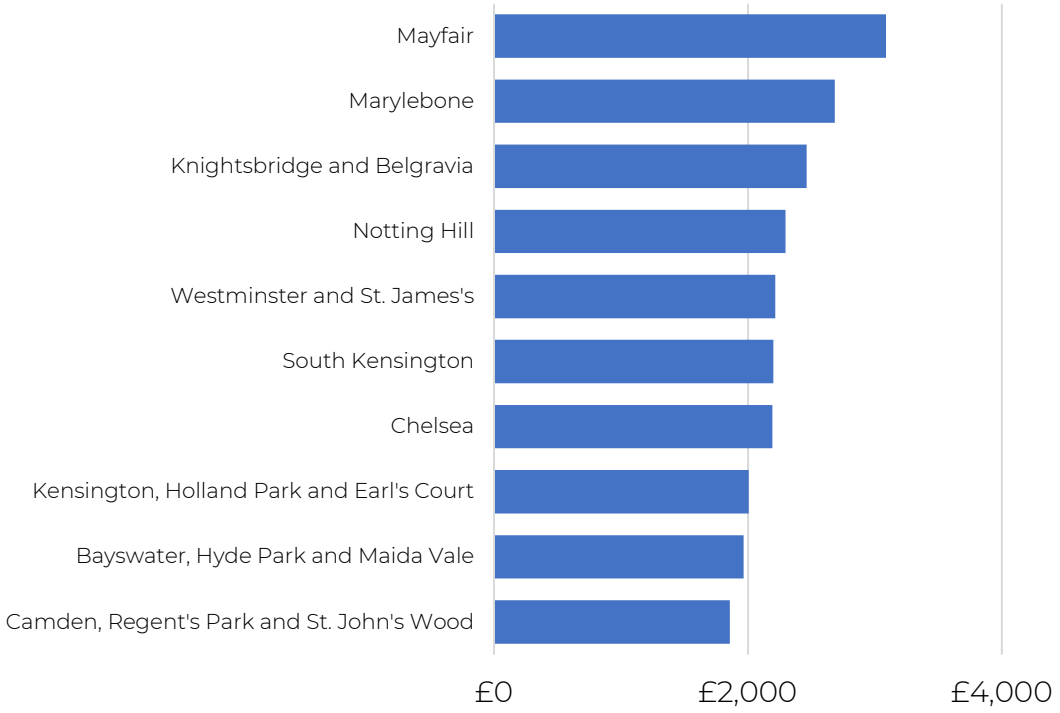


- New build homes have accounted for 4% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 62% to 38%.
- Marylebone had the highest proportion of new build activity over this period, followed by Mayfair.

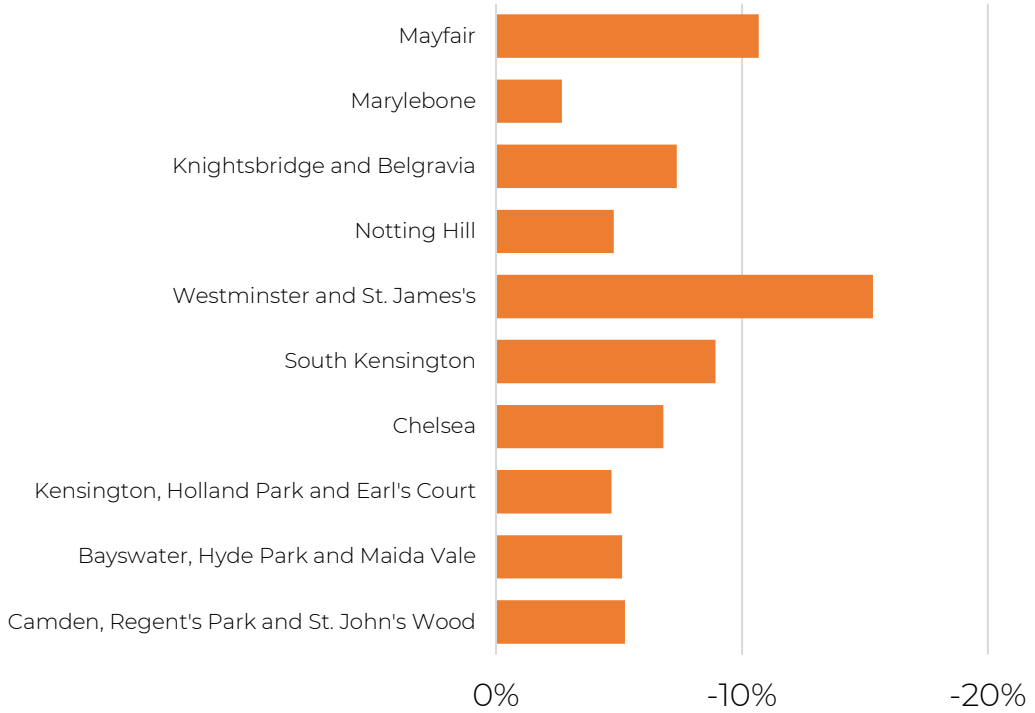
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq ft

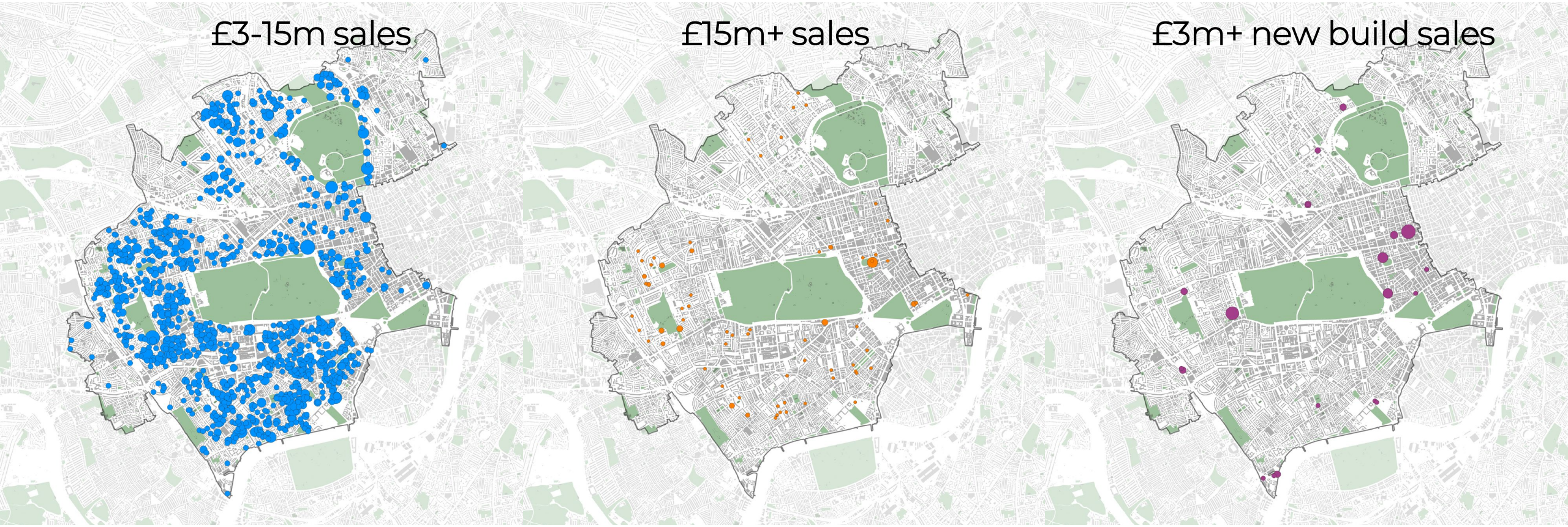


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q1 2023

Activity Maps



Source: OS OpenData, HM Land Registry

Notes: Size of dot = # of sales. All recorded sales Jan 2021 to Dec 2022. First two maps pre-owned only.

Forecast Summary

- The forecasting environment saw minimal activity in Q1, with most agents' figures unchanged. While it would be a stretch to call the economic and political environment 'calm', relative to a year of three Prime Ministers and four Chancellors there is more stability and the lack of movement in the forecasts perhaps reflect this.
- Knight Frank did release new figures covering the five years to 2027, but the first four years of this update are exactly in line with their previous ones. For PCL this means a 3% fall this year, no growth in 2024, and subdued growth in 2025 to 27 for a five year total increase of 8.1%, the least positive of our three forecasters. In the UK and London mainstream markets, falls are expected this year and next with limited growth after that. This is driven by the adverse outlook for borrowing costs and wider cost-of-living pressures.
- Savills expect falls in all markets in 2023. The largest annual price drop – 7% – 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 remain the most positive of our sample. While they also expect mainstream London values to fall this 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 for a five year total of almost 20%.
- 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*	2023	2024	2025	2026	2027	*5 year total*
Prime Central London	Savills	*Apr 2023*	-2.0%	2.0%	5.0%	4.0%	4.0%	**13.5%**
	Knight Frank	*Mar 2023*	-3.0%	0.0%	3.0%	4.0%	4.0%	**8.1%**
	JLL	*Nov 2022*	2.5%	3.0%	3.5%	4.0%	5.0%	**19.3%**
Greater London (mainstream)	Savills	*Apr 2023*	-7.0%	0%	3.5%	6.0%	4.0%	**6.1%**
	Knight Frank	*Mar 2023*	-6.0%	-4.0%	3.0%	5.0%	5.0%	**2.5%**
	JLL	*Nov 2022*	-4.0%	2.5%	4.0%	5.0%	6.0%	**13.9%**

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

Risks and Outlook

The long term view

The performance of PCL at the start of 2023 may look weak relative to the last two years, but the longer-term context is more positive. Activity is well above pre-Pandemic benchmarks and values are broadly stable.

Prime property values should be more resilient than mainstream ones over the coming months if the market does weaken. The relatively lower growth in recent years means there is less 'froth' to come off current prices.

Start of a slowdown?

PCL transaction figures in Q1 were the lowest since the Pandemic, with values also broadly flat.

However, leading indicators of sales activity, such as new instructions and the number of properties going under offer, increased compared to last year. It's therefore too early to tell if we are seeing the start of a downturn or whether Q1 was just a blip in activity. Q2 is traditionally a strong selling season, so the picture should become clearer at the next update.

Positive | **Negative**

No news is good news

Since our previous quarterly update there has been relative economic stability in the UK, with mortgage rates declining from their recent peak and less volatility in the sterling exchange rate and the financial markets.

Although GDP growth remains sluggish and inflation stubbornly high, sentiment is improving. This is feeding through into the PCL market, giving potential buyers and sellers confidence to transact.

Political risks emerging

The financial markets may be calmer but political uncertainty could grow as we enter the (long) lead up to the next General Election.

The current government recently floated the idea of a cut to inheritance tax, or a further increase in the Residence Nil Rate Band that exempts main properties. The current Labour opposition have been relatively quiet on wealth taxes so far compared to previous campaigns, but back-benchers and campaigners could easily get them back on the agenda as the vote approaches.