

JUSTIN MASON

VALUATION • CONSULTANCY

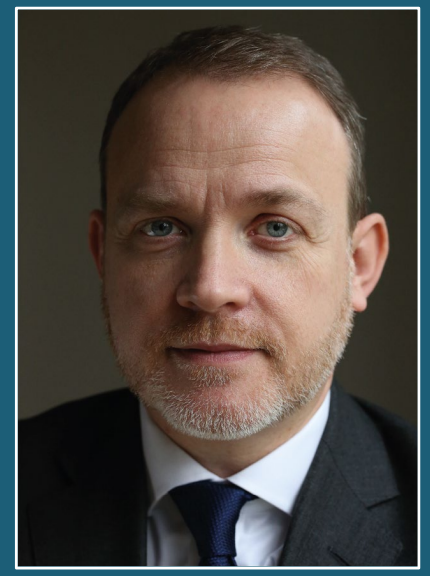
Prime Central London Update November 2022

Key Highlights

- Prime Central London* sales activity fell slightly in Q3, with 173 transactions recorded by LonRes**. This is 22% down on sales volumes in Q2 2022.
- On an annual basis, there were 795 sales above £3m in the 12 months to September 2022, 4% higher than a year earlier and 56% above the Q3 2016 to Q1 2020 average, the period following the Brexit referendum but pre-Pandemic.
- Value growth was muted in Q3. Both the completions-based figures and opinion-based indices indicated small increases on a quarterly basis for prime properties. The value gap between houses and flats on a £ per sq ft basis continued to reduce.
- Average discounts in PCL fell slightly in Q3, continuing the trend since 2019. Broken down by property type, average discounts for prime houses remain smaller than for flats (5.0% vs. 7.4%), but the recent trend of this gap closing continued.
- Significant changes were made to all the agent forecasts since our last update. Knight Frank and Cluttons updated their existing 2022-26 figures while Savills issued a full new set of forecasts covering the five years to 2027. JLL also made changes to next year's figures. All the changes expect lower growth or price falls next year. 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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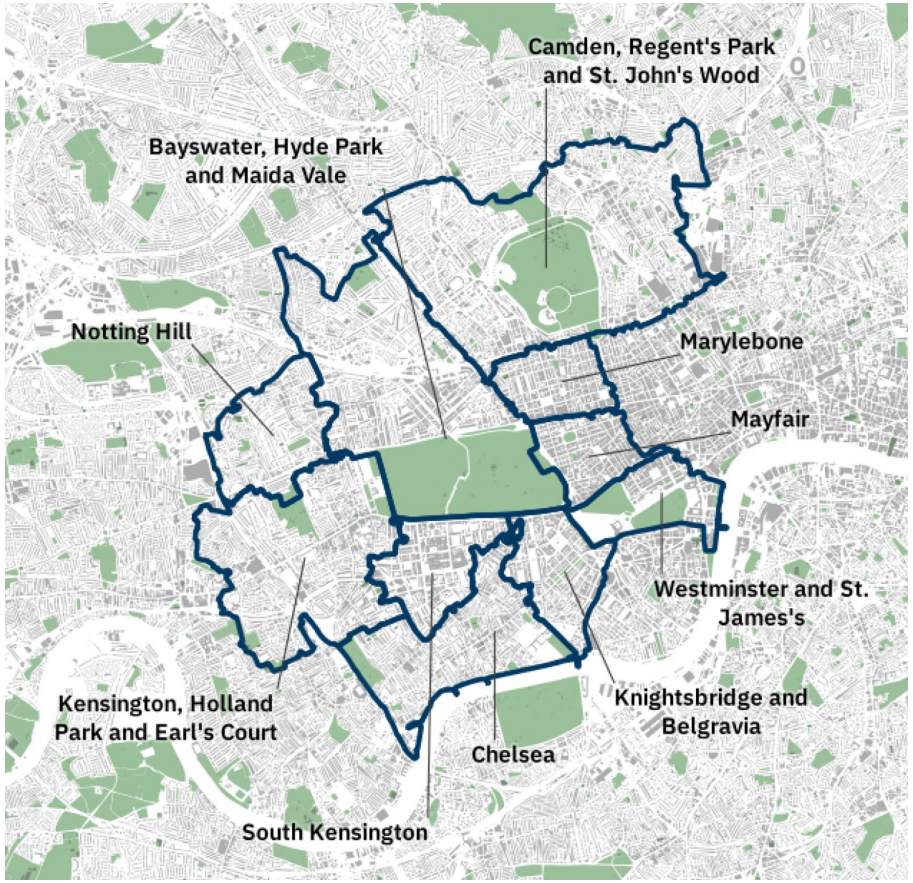


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Market Background

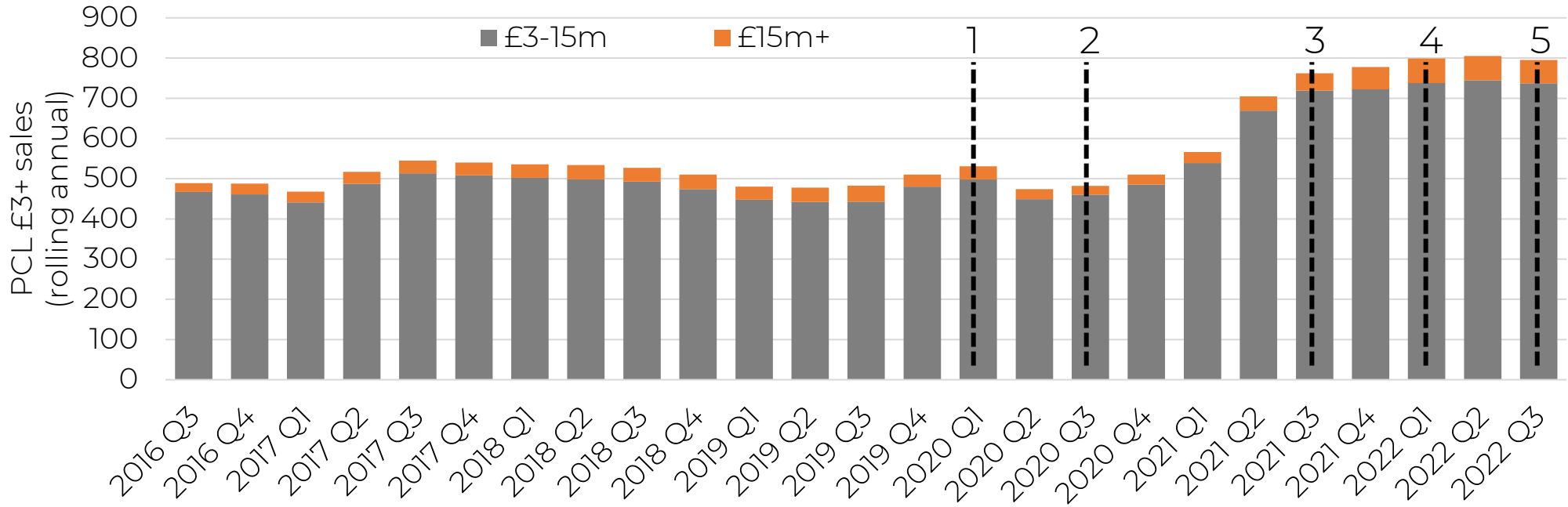


Area	Transactions (12m to Jun-22)	Compared to last Q (12m to Mar-22)
England	707,000	Down 181,000 (-20%)
London	75,000	Down 29,000 (-28%)
Camden, Westminster and RBKC	5,100	Down 1,700 (-25%)
PCL £3m+	650	Down 100 (-13%)

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



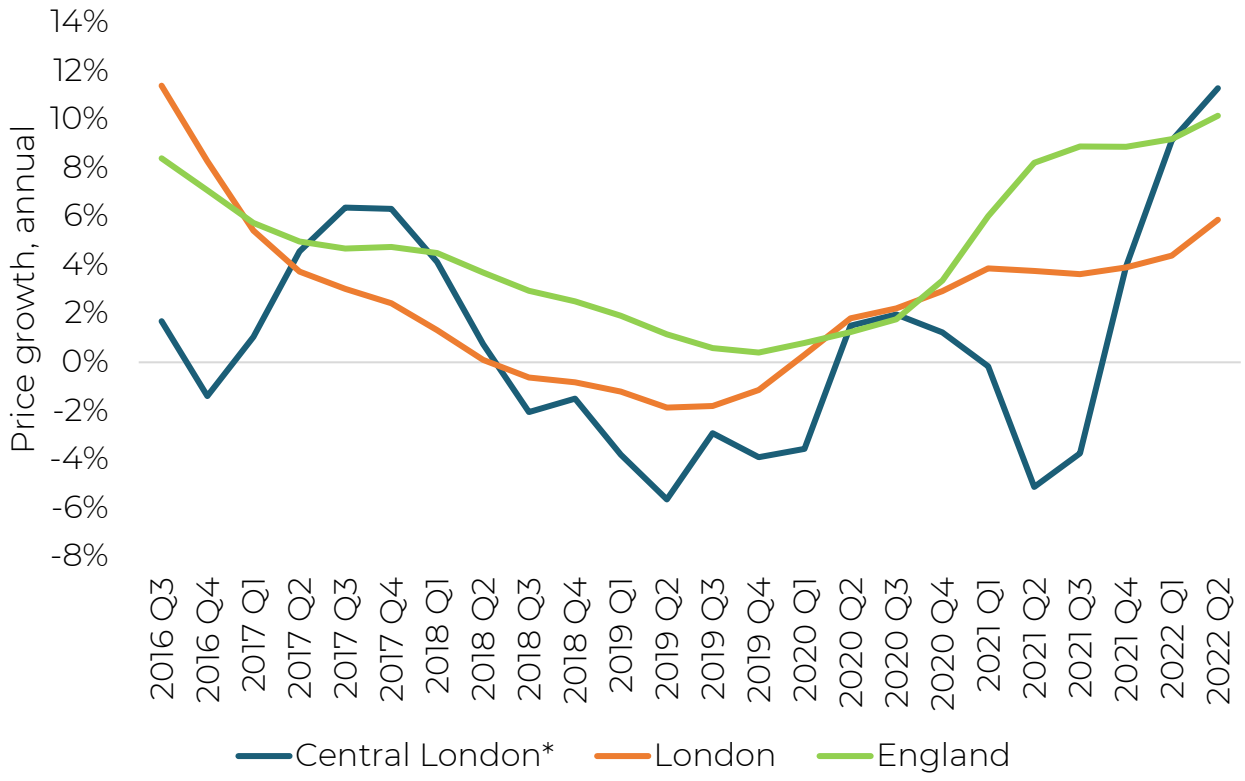
Source: LonRes

Mar 2020	Jul 2020	Q2 2021	Q1 2022	Q3 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: Boris Johnson resigns as PM, Liz Truss appointed

Transaction Trends

- Activity in PCL in Q3 was down on Q2 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 Q3 there were 173 transactions across both price bands, 22% lower than Q2 2022 and 5% lower than Q3 a year ago, based on LonRes data.
- On an annual basis there were 737 recorded prime sales and 58 super prime, totalling 795 in the 12 months to September 2022. Again this is relatively unchanged from recent results, being 1% lower than the previous quarter and 4% higher than a year earlier. The current level is 56% above the annual average from mid-2016 to early 2020 – the period following the Brexit referendum but before the Pandemic.
- The transaction levels in the prime markets continue to show few signs of any impact from the turmoil affecting the UK's political and economic environment. Inflation remains high and growth is weak and volatile. Borrowing costs have risen sharply and – despite falling back from their recent peak as the new Prime Minister and Chancellor's attempts to calm the markets partly succeeded – remain well above recent levels. This may start to impact on activity and pricing over the rest of the year and into 2023.

House Price History

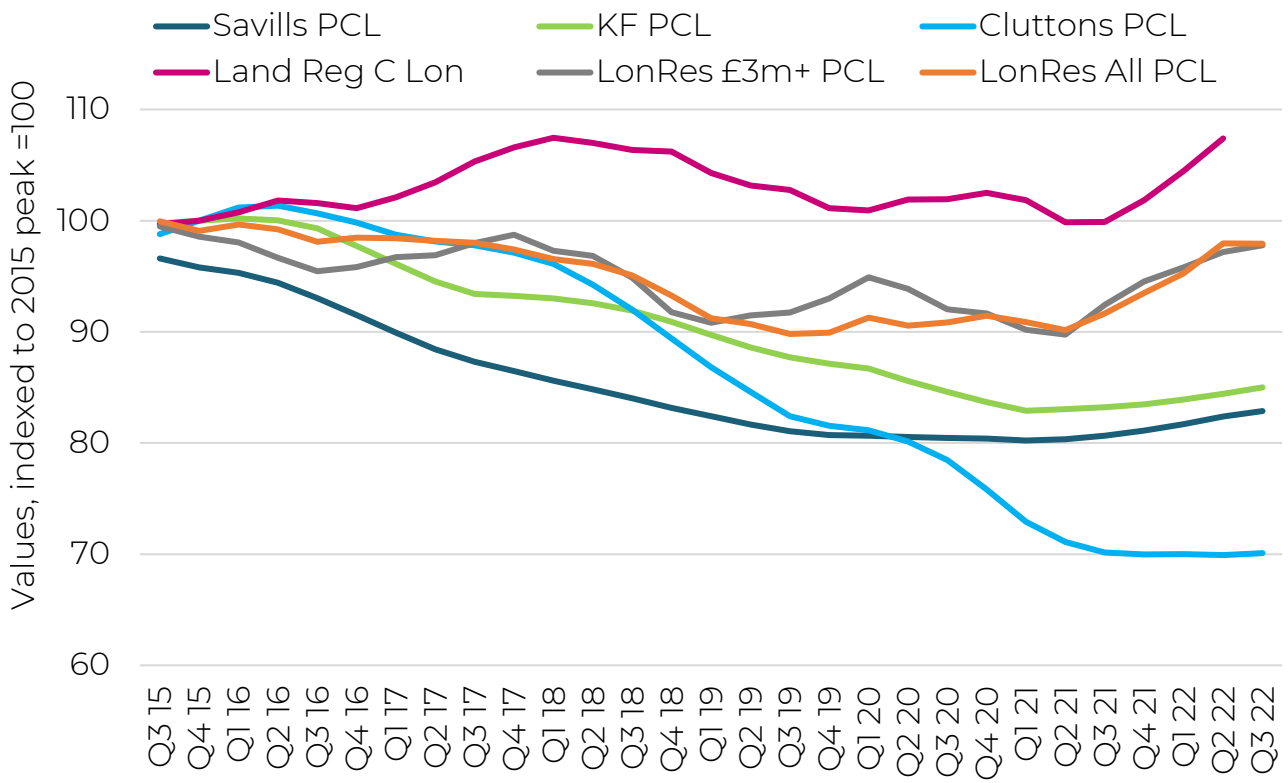


Source: ONS UK HPI (data smoothed, 6 months)

**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 Q2 to 10.1% annual (9.2% in Q1), according to the ONS index for England.
- Price rises in central London boroughs* accelerated in Q2, with annual growth of 11.3%.
- Growth for the wider London region also increased, to 5.9%.

Achieved Prices and Agents' Indices



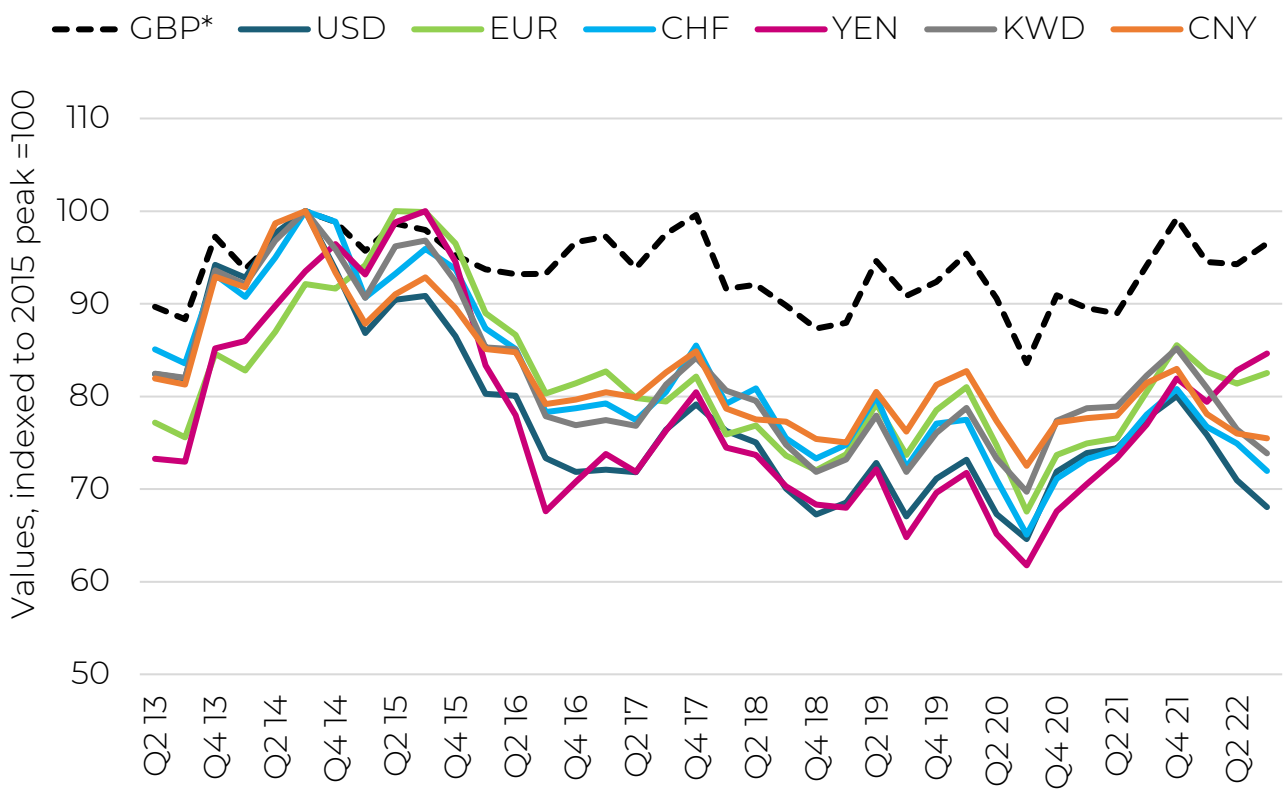
Source: Land Registry, Savills, Knight Frank, LonRes, Cluttons

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

**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 reported a slight fall in values in Q3 whereas Knight Frank's index grew by 0.5%. Annual growth for both is around 2-3%.
- LonRes achieved £ per sq ft data is included on the chart for comparison, recording higher levels of growth.

Pricing in Other Currencies

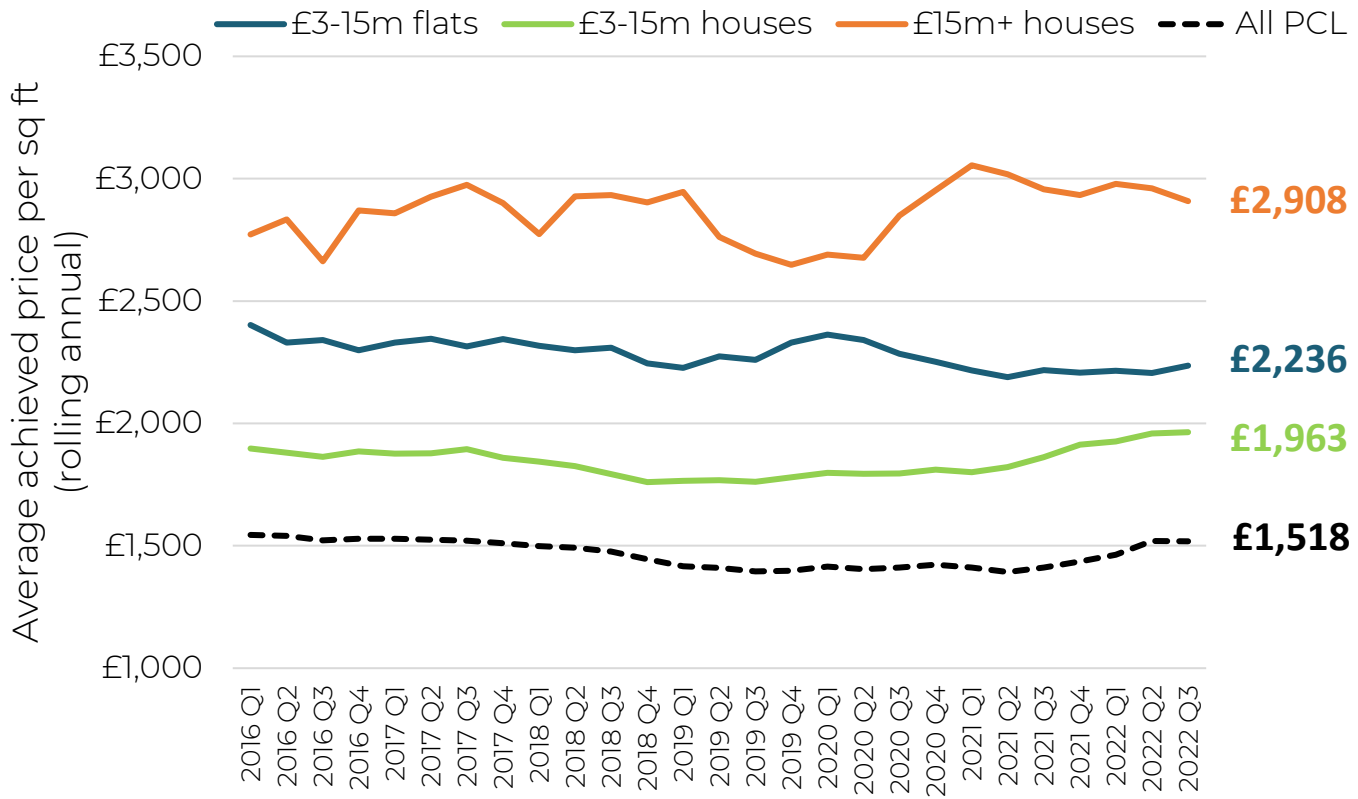


- London is a global city with market participants from all over the world.
- Nominal price movements in sterling therefore do not necessarily reflect the effective price for buyers holding wealth in other currencies.
- This chart shows the effective price movements of PCL property in a range of major currencies.
- Even in the most 'expensive' currency, Japanese Yen, prime London homes are around 15% below their 2015 peak, compared to 3.5% in sterling terms. In US dollars the equivalent figure is 32%.

Source: LonRes, Yahoo Finance

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

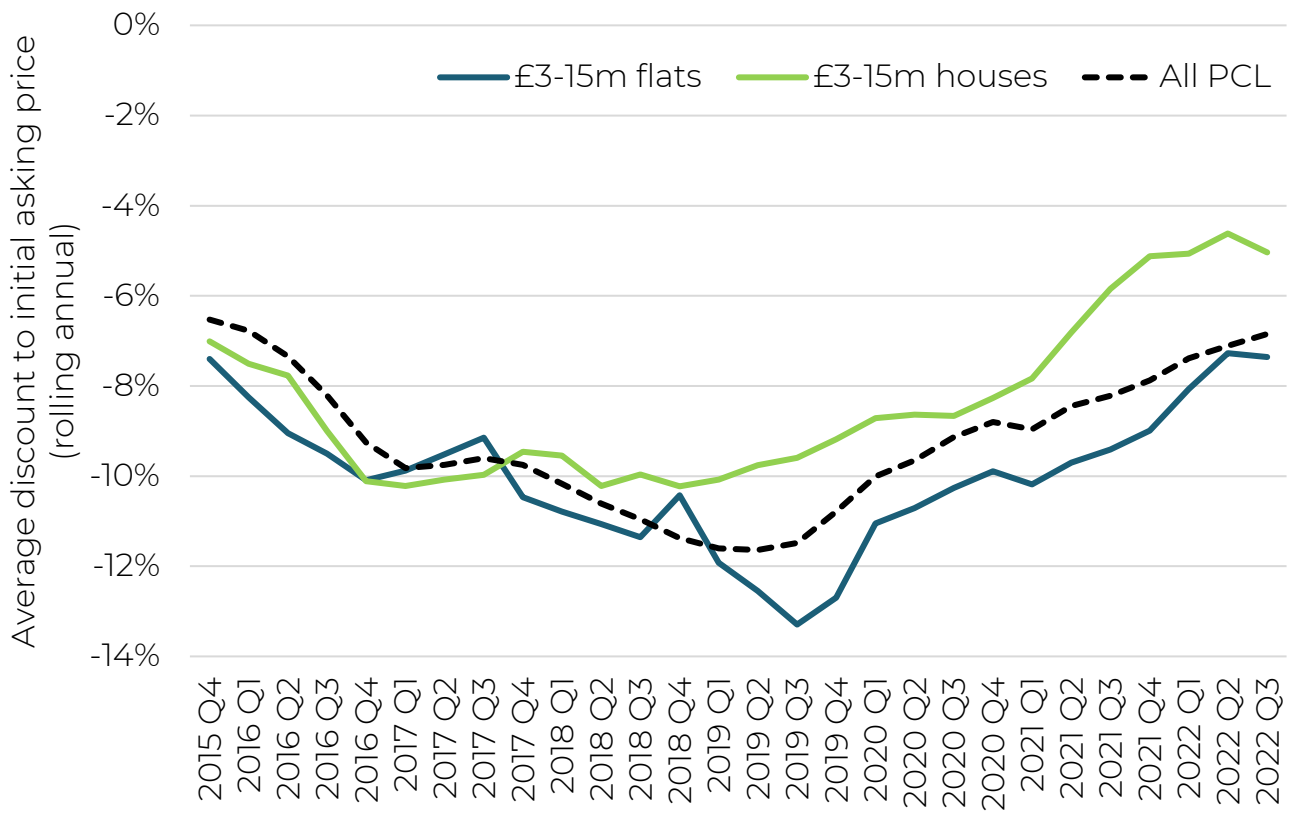
Achieved £ per sq ft by year



Source: LonRes

- On an annual basis, achieved values for PCL overall saw an 8% rise (£1,518 in Q3 2022 vs £1,411 in Q3 2021).
- In the higher price bands the gap between flat and house values continued to close, with £3-15m flat values up 1% compared to a year earlier and £3-15m houses up by 5%.
- £15m+ houses were down by 2% 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
  - +4% for £3-15m houses
  - -2% for £15m+ houses
  - No change 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

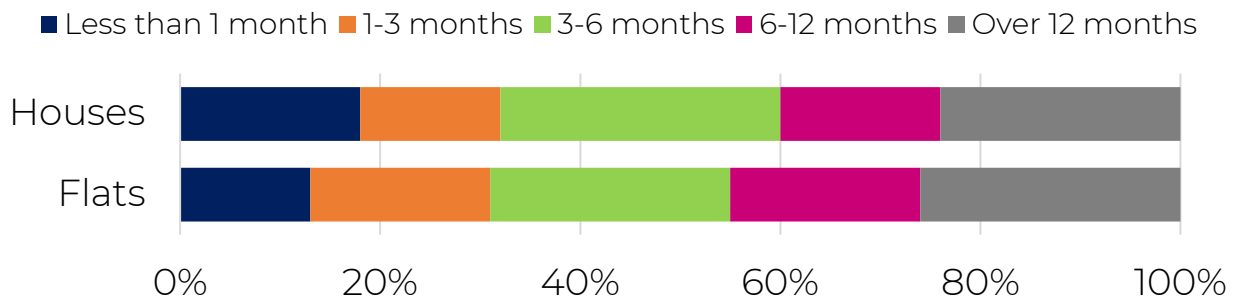


Source: LonRes

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

- Average discounts across PCL fell slightly in Q3 to 6.8%, continuing the trend since 2019.
- In the £3-15m markets discounts increased slightly in Q3 for flats and houses. The average discount for £3-15m houses reached 5.0% compared to a recent minimum of 4.6%, while flat discounts in this price band fell were 7.4%, compared to 7.3% in Q2.
- The difference in average discounts between flats and houses in the £3-15m band was 2.3 percentage points, down from a peak of 3.9 in the second half of 2021.
- Agents have reported the need to manage vendor expectations, with prices being adjusted to stimulate sales activity in some cases.

Time on the Market



45.9%

Over 2 in 5 properties have been discounted

16.3%

Around 1 in 6 are currently under offer

+0.4%

Stock levels are similar to one year ago

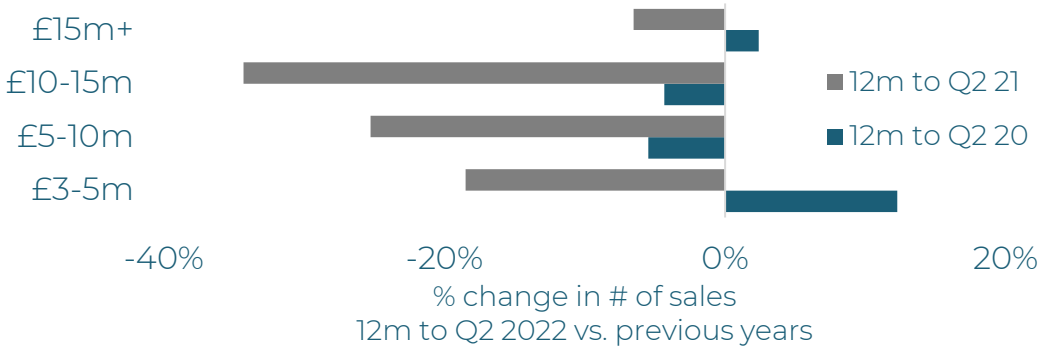
Source: LonRes, data for Q3 2022 only

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

- For current listings in PCL*, 44% have been on the market for over 6 months (40% for houses; 45% for flats).
- This data indicates an average time on the market of around 7.4 months for houses and 7.9 months for flats.
- Stock levels grew slightly on an annual basis, by 0.4%. This is underpinned by a recent pickup in new instructions, responding to the higher transaction levels seen over recent quarters.

Depth of Market

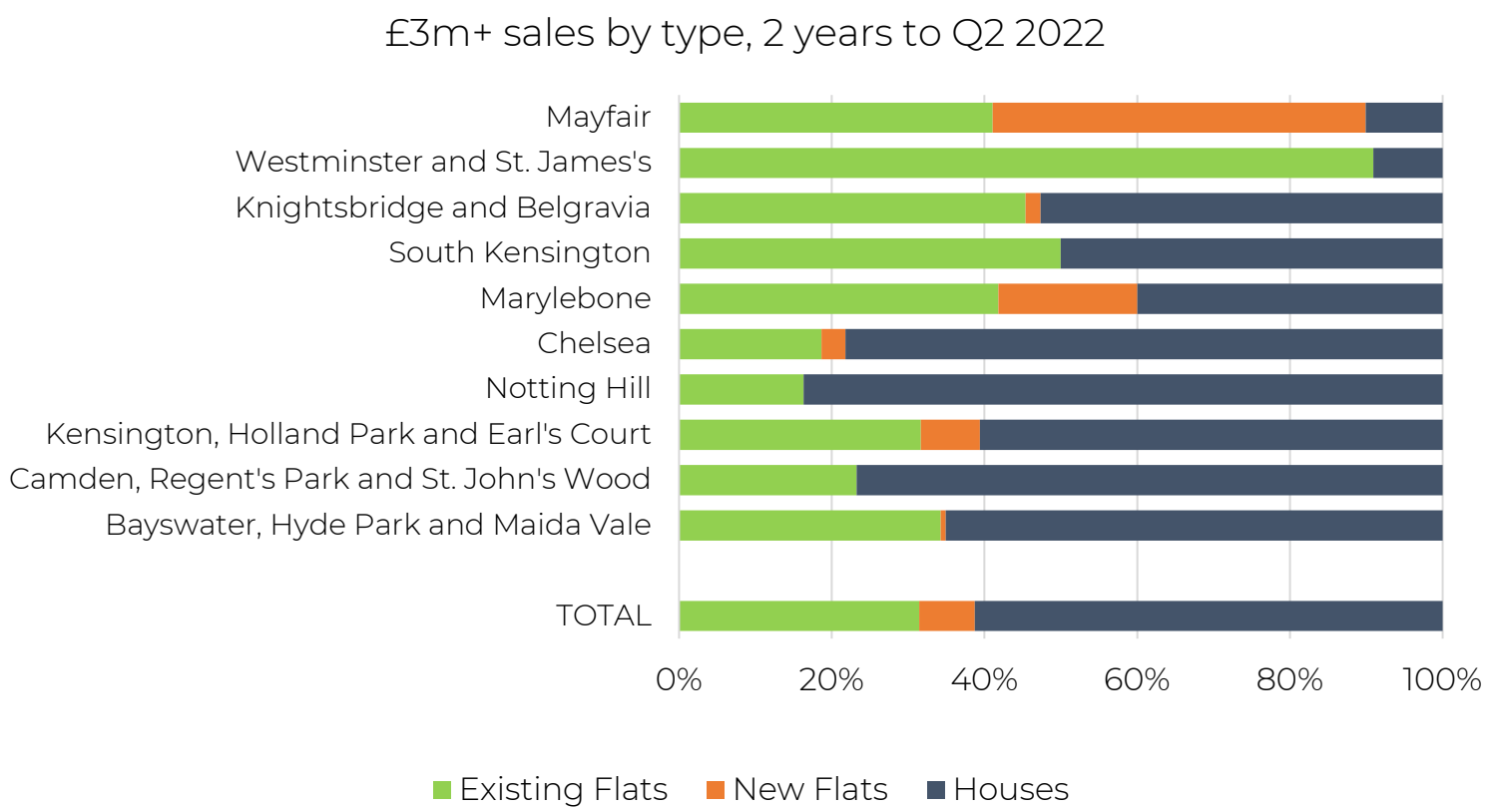
Price band	Existing flats	New flats	Houses*
£3-4m	93	8	112
£4-5m	52	6	86
£5-6m	26	2	49
£6-7m	13	0	46
£7-8m	9	0	26
£8-9m	5	2	22
£9-10m	0	2	5
£10-12.5m	8	0	17
£12.5-15m	6	0	13
£15-17.5m	2	0	8
£17.5-20m	5	0	2
£20-25m	4	0	6
£25-30m	4	0	1
£30-40m	1	2	5
£40-50m	1	0	0
£50m+	1	1	0
TOTAL	230	23	398



- The table shows £3m+ sales volumes by price band in the 12 months to Q2 2022, according to Land Registry completions data. A comparison to the trends in the two previous years is shown in the chart.
- Activity over the past 12 months is down across all price points vs the previous year.
- * 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

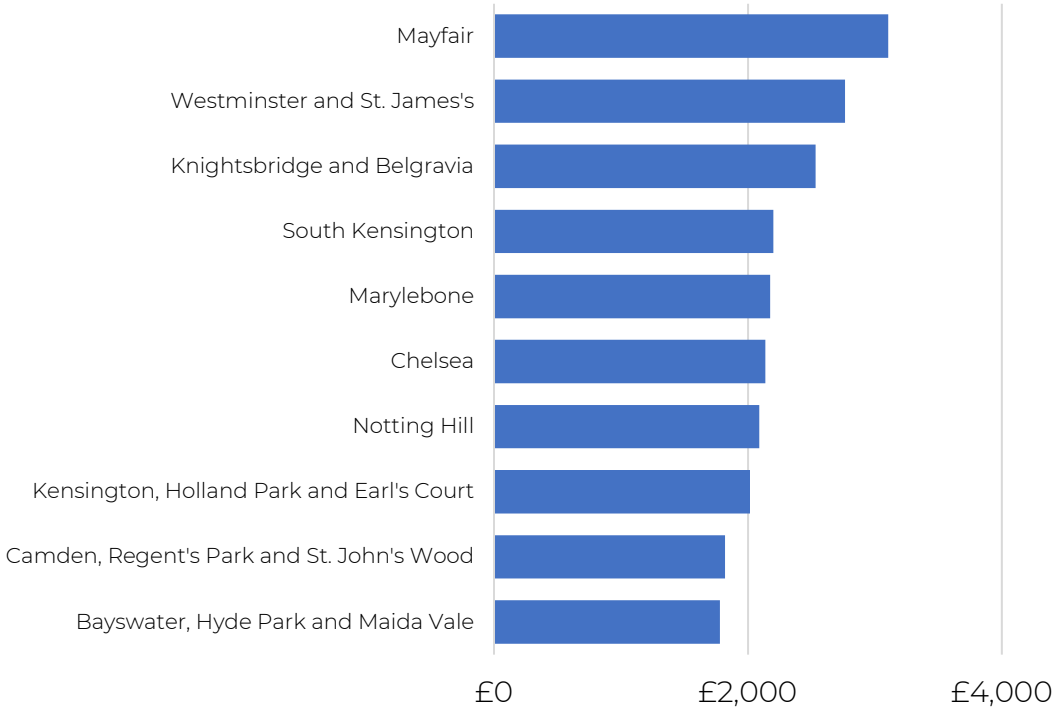


- New build homes have accounted for 7% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 61% to 39%.
- Mayfair had the highest proportion of new build activity over this period, followed by Marylebone.

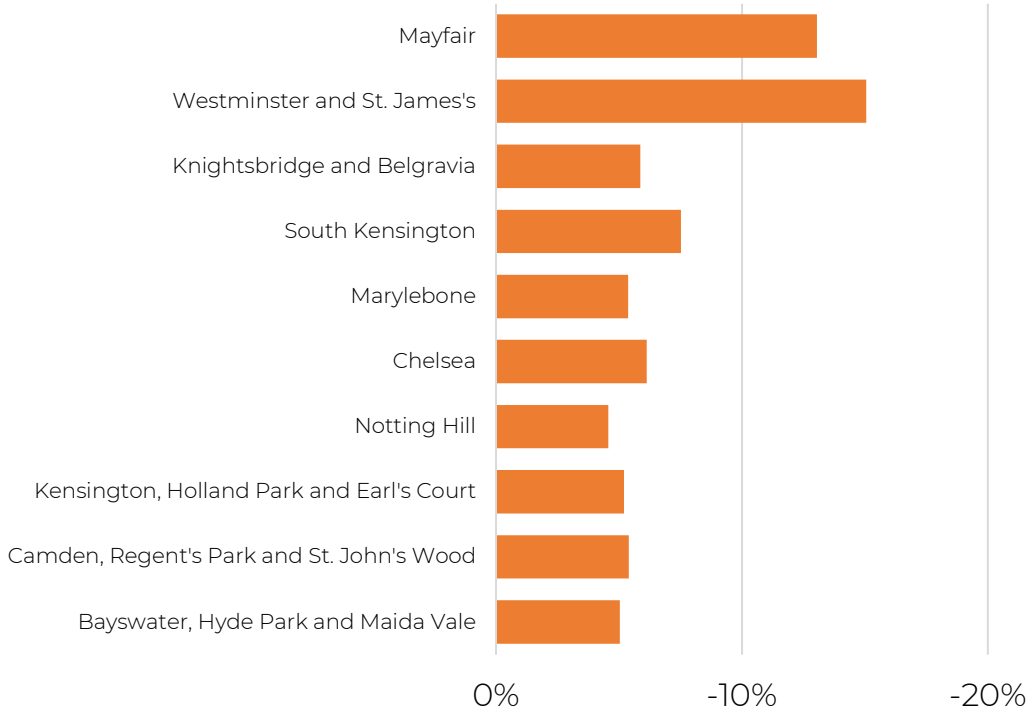
Source: Land Registry Price Paid Data

Local Analysis: Part Two

Average achieved £ per sq. ft.

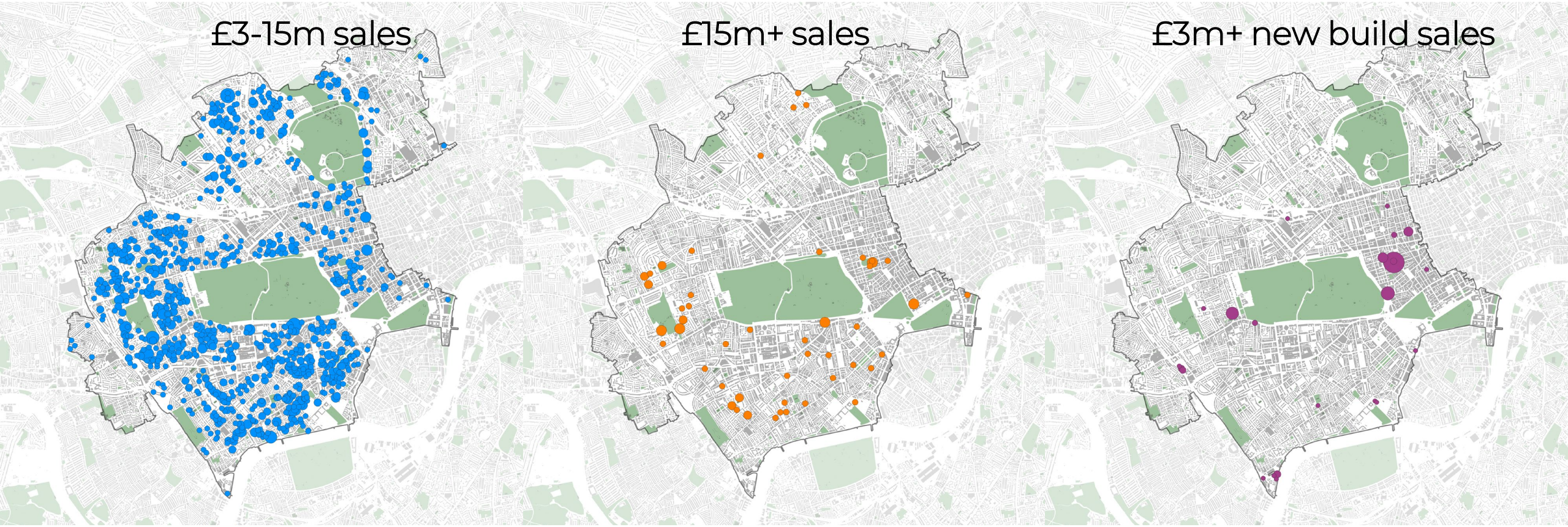


Average discount to initial asking price



Source: LonRes, £3m+, 12 months to Q3 2022

Activity Maps



Source: OS OpenData, HM Land Registry

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

Forecast Summary

- Significant changes were made to all the agent forecasts since our last update. Knight Frank and Cluttons updated their existing 2022-26 figures while Savills and JLL issued full new sets of forecasts covering the five years to 2027.
- Knight Frank were the first mover among the major agents, releasing a full set of revised figures across all their forecasts. They note the adverse outlook for borrowing costs and wider cost-of-living pressures will be felt most in the mainstream markets, with both UK and London expected to see two years of falls and very limited growth over the five years to the end of 2026. While PCL will 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 moved on to the 2023-27 period and expect falls in all markets in 2023. The largest 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.
- Cluttons revised their expected PCL growth for 2022 down to almost zero, followed by average growth of around 3.5% per annum from 2023 to 26.
- 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*	-	-2.0%	2.0%	5.0%	4.0%	4.0%	**19.3%**
	Cluttons	*Nov 2022*	0.2%	4.3%	4.3%	3.5%	2.5%	-	**15.6%**
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*	-	-2.0%	2.0%	5.0%	4.0%	4.0%	**13.9%**

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.

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

Risks and Outlook

Solid foundations

The year to date has seen solid levels of activity in the prime London markets and steady growth in capital values. While interest rates have risen, the market is driven more by global flows of equity than borrowing costs, meaning buyer demand so far appears robust.

Rental demand continues to be very strong, and this should underpin values even in an environment of rising yields.

Signs of uncertainty

However robust the underlying market, political and economic turmoil are likely to have some negative impact on activity and prices. Some buyers and vendors have opted to press ahead with deals, potentially taking advantage of existing lower-cost mortgage offers, but there are some signs of growing caution.

Metrics such as fall-throughs and price-reductions have risen in recent weeks. If this turns into a longer-term trend it could indicate significantly weaker market conditions ahead.

Positive **Negative**

Exchange rate movement

Currency rate fluctuations are considered a key driver of international buyer demand in Prime London. Recent falls in the pound, especially compared to the US Dollar where values are down over 30% since 2015, could provide a trigger to invest.

This may be particularly relevant to international buyers who had been waiting for the pandemic, and its associated travel restrictions, to subside, with pent-up demand combining with a further reduction in dollar pricing to stimulate activity.

Economic volatility

While currency movements may provide a reason to buy for some, this is not a uniformly positive development. The notion of London as a 'safe haven' may be harmed by the ongoing weakness of the currency, reflecting a lack of appetite for UK-based investment irrespective of asset class.

The depreciation of the pound is also less good news for existing owners – especially if they have a foreign currency loan secured against their property – and could limit transactions in the market.