

JUSTIN MASON
VALUATION • CONSULTANCY

PRIME CENTRAL LONDON UPDATE

AUGUST 2020



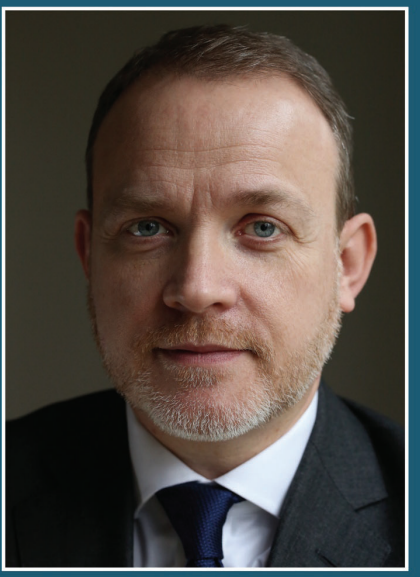
CANAL STREET RESEARCH

KEY HIGHLIGHTS

- Prime Central London* transactions fell in Q2, with 72 recorded by LonRes compared to 110 in Q1 and 131 in Q2 2019.
- Over the past four quarters 460 sales took place in this market, the lowest annual total for more than seven years.
- Values continued to fall, although the extent of the decline is unclear due to low activity and some indices paused due to the Covid-19 lockdown.
- Average discounts from asking price remained just under 10%, having peaked at more than 12% in early 2019.
- Some agency forecasts have been revised to reflect the impact of Covid-19, but overall five-year growth in PCL values is expected to be broadly similar to pre-pandemic predictions at around 15%.

*PCL in this report refers to £3m+ sales in the following areas: SW1(A, W, X, Y), SW3, SW7, SW10, SW5, W14, W11, W8, W2, W9, NW1, NW8, W1(C, G, H, J, K, S, U)

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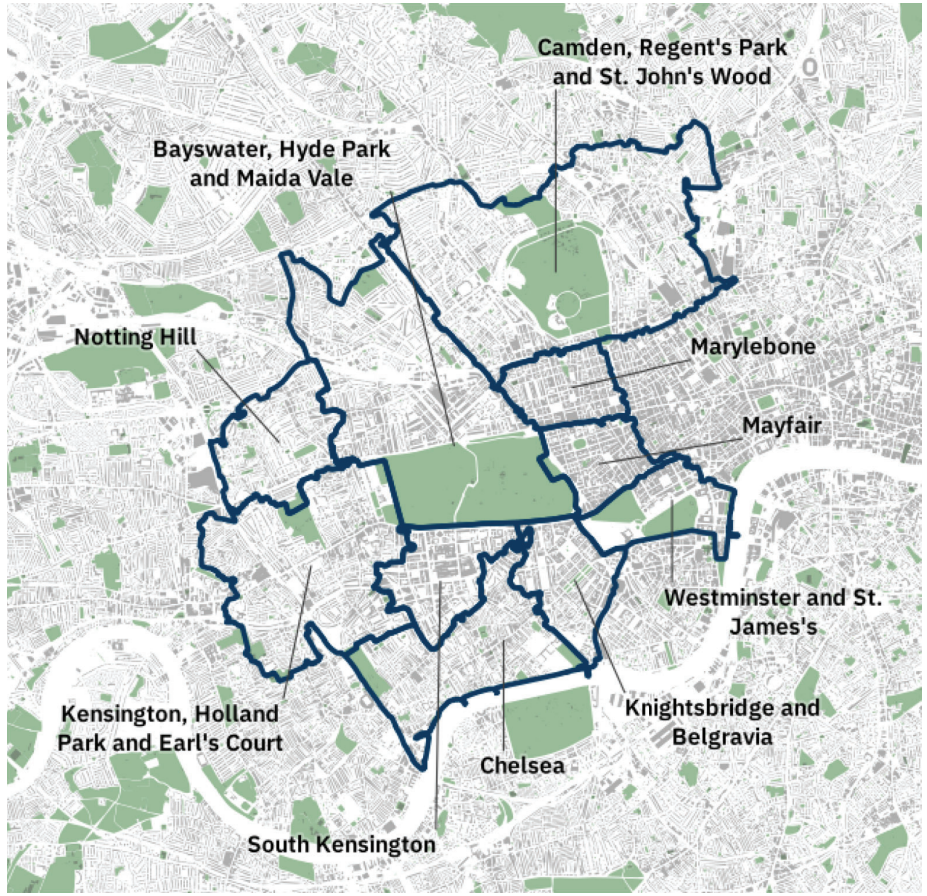


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MARKET BACKGROUND



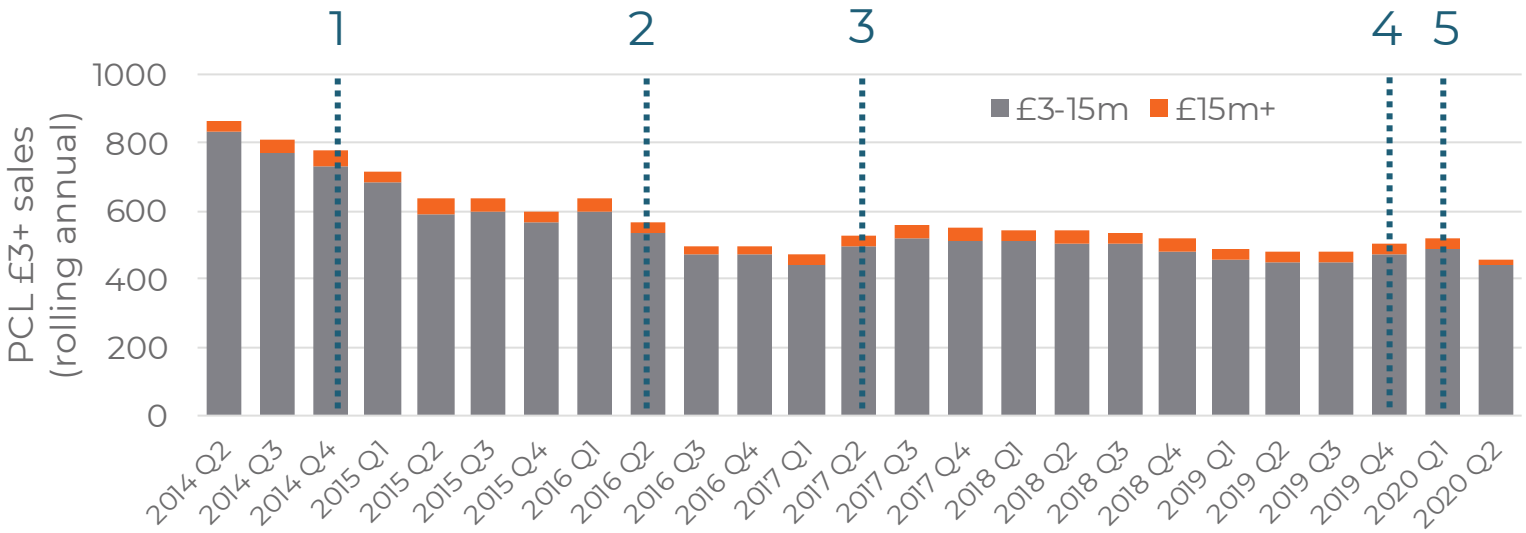
Area	Transactions (12 months to March)
England	790,000
London	82,000
Camden, Westminster and RBKC	5,000
PCL* £3m+	560

- 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.

Source: OS OpenData, Land Registry

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TRANSACTION TRENDS



Source: LonRes

Dec 2014	Q2 2016	Jun 2017	Dec 2019	Mar 2020
1: SDLT increase for £1m+ and slab system removed	2: 3% SDLT surcharge and Brexit referendum	3: General election – May minority	4: General election – Johnson majority	5: Covid-19 lockdown starts

- The optimism at the start of the year was quickly curtailed by Covid-19 and the resulting lockdown, with the UK economy officially entering a recession in Q2.
- The PCL £3m+ market has been affected, with sales volumes in the year to Q2 dropping back after a slight bounce back over the previous two quarters.
- Activity was already subdued following the Brexit referendum and 2016 Stamp Duty Land Tax (SDLT) changes. There is also ongoing geopolitical and economic uncertainty relating to US/China trade disputes, perceived Russian interference and wars in the Middle East.

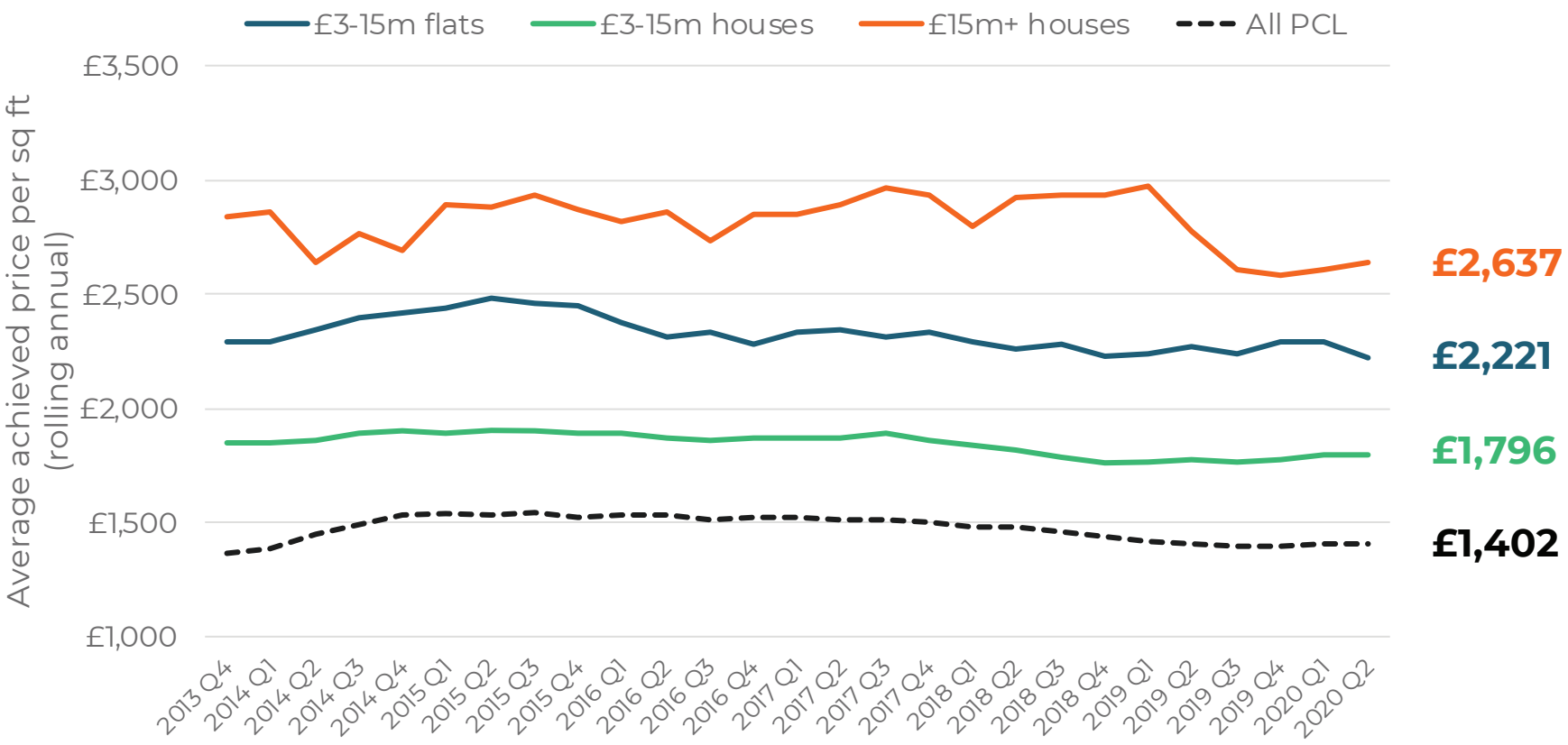
HOUSE PRICE HISTORY



- Values in the wider London region saw annual growth for the first time in seven quarters in Q1 according to the official ONS indices.
- The ONS index has been paused due to lockdown, but falls are likely to be recorded for the rest of the year once it resumes. This is due to low growth levels pre Covid-19 and the scale of the economic impact.
- Central London continues to underperform when compared to regional and national averages.

*Source: ONS UK HPI (data smoothed, 6 months) . *Central London defined as Westminster, RBKC and Camden average.*

ACHIEVED £ PER SQ FT BY YEAR



- Average achieved £ per sq ft has stayed relatively flat, with small falls across all PCL markets.
- £3-15m houses have fared best over the past five years: £1,796 in the year to Q2 2020 vs £1,935 Q2 2015 (6% fall).
- For *all* PCL the equivalent figure is -8% (£1,402 vs £1,532).

Source: LonRes

THE INDUSTRY VIEW

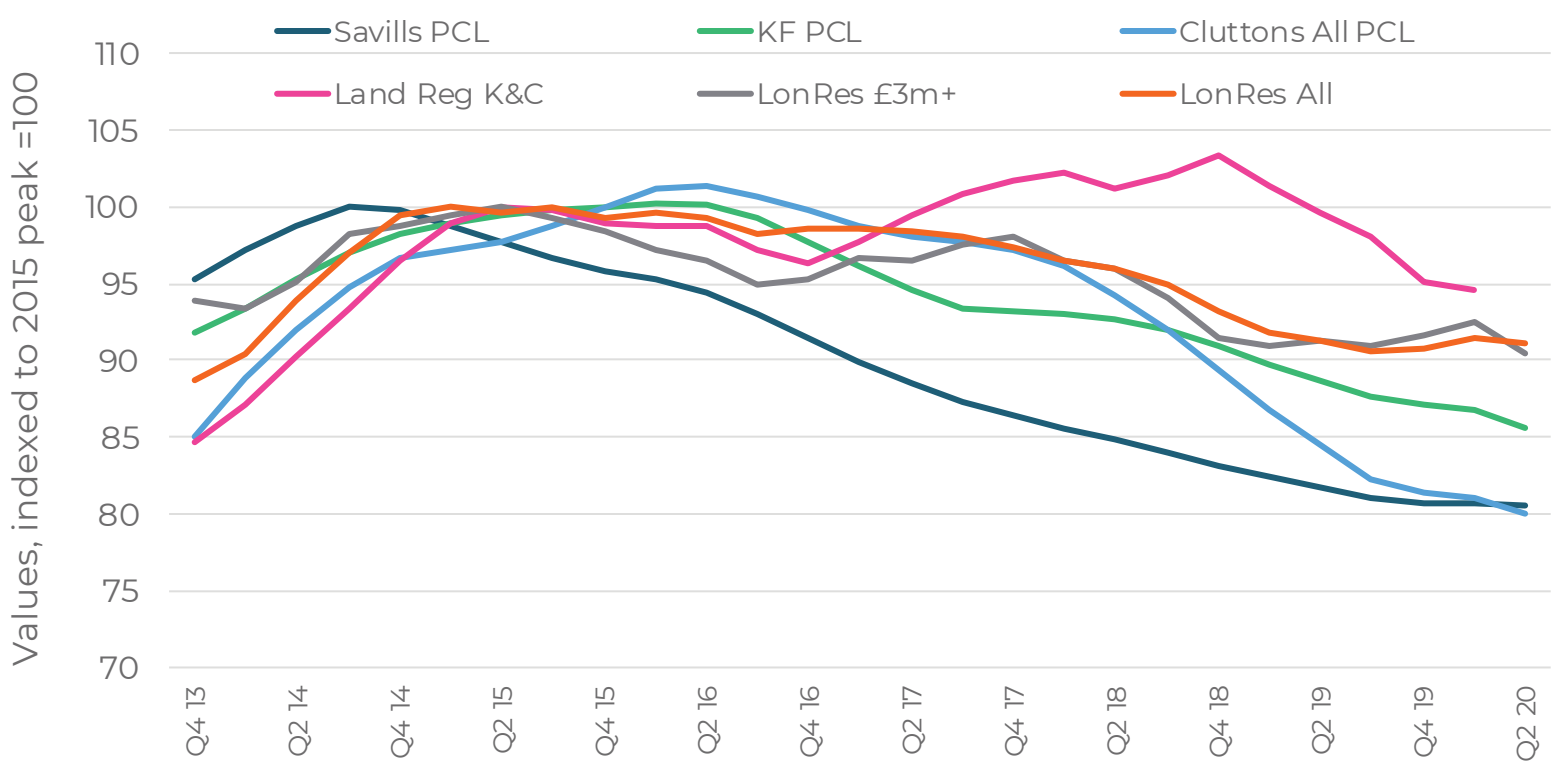
"This excellent report provides an objective and meaningful perspective on the current Prime Central London market. Justin, as usual, has his finger on the property market pulse.

I'll be sending this to my Family Office clients who are thinking of investing in London property. It is one of the best reports I have read this year."

Kelly Noel-Smith
Partner – International Private Client Group
Forsters LLP



ACHIEVED PRICES AND AGENTS' INDICES

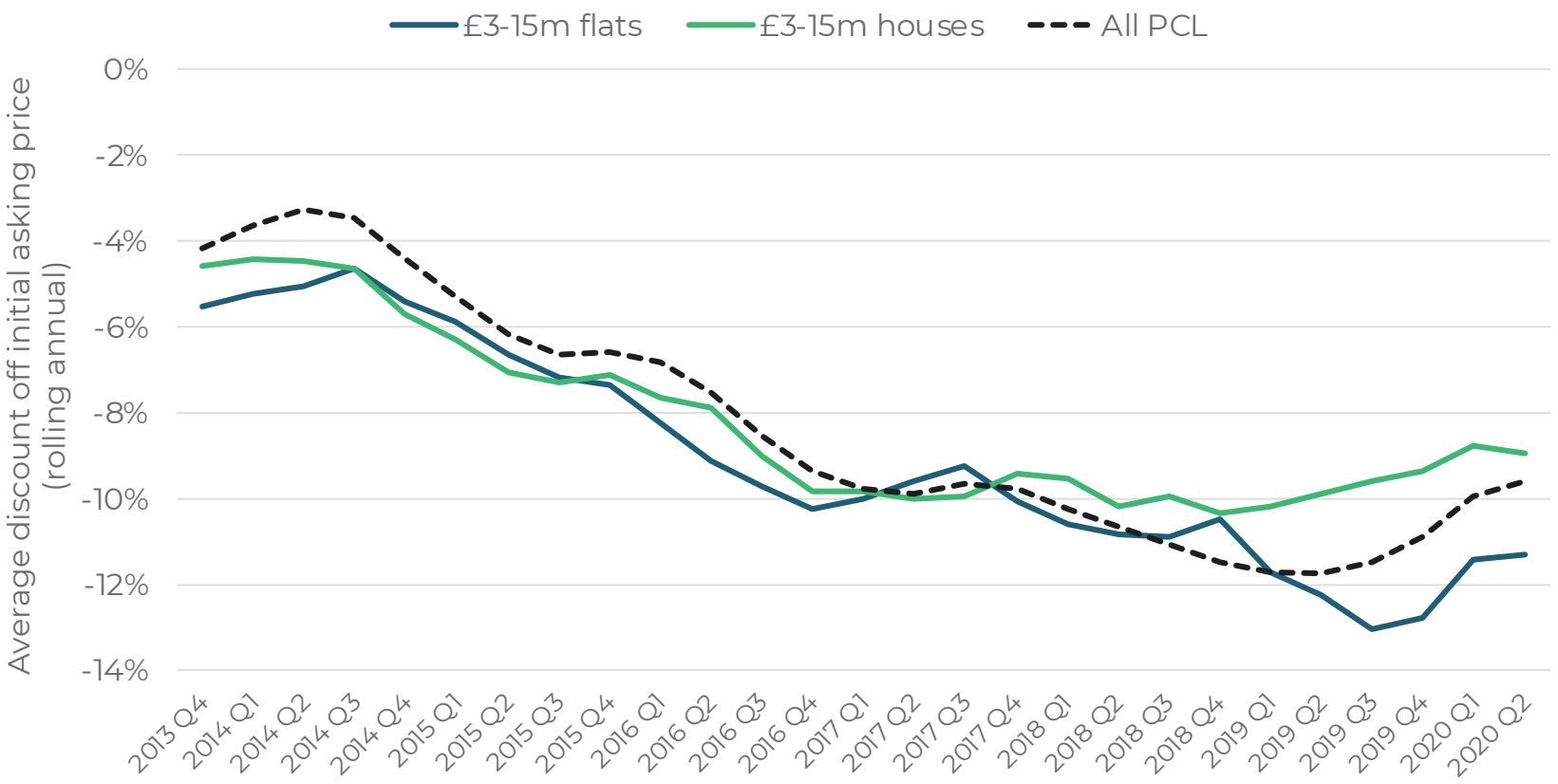


Source: LonRes, Land Registry, Savills, Knight Frank, Cluttons

All data 12-month smoothed

- This page looks at a sample of house price indices, including both valuation-based data (Savills, Knight Frank, Cluttons) and those based on recorded sales (Land Registry, LonRes).
- The five year change shown on the previous page compares favourably to the ~20% falls often quoted when looking at PCL pricing relative to its previous peak.
- This chart compares the change in the LonRes achieved prices with some agencies' opinion-based PCL indices, plus the much more broad Land Registry index for Kensington & Chelsea.
- Whilst the coverage of each index will vary, the agents' indices do differ significantly from the achieved pricing data - confirming the 20% fall since their 2015 peaks. Knight Frank's PCL index also shows a fall of around 15% for Q2 2020 vs Q3 2015.

AVERAGE DISCOUNT TO ASKING PRICE

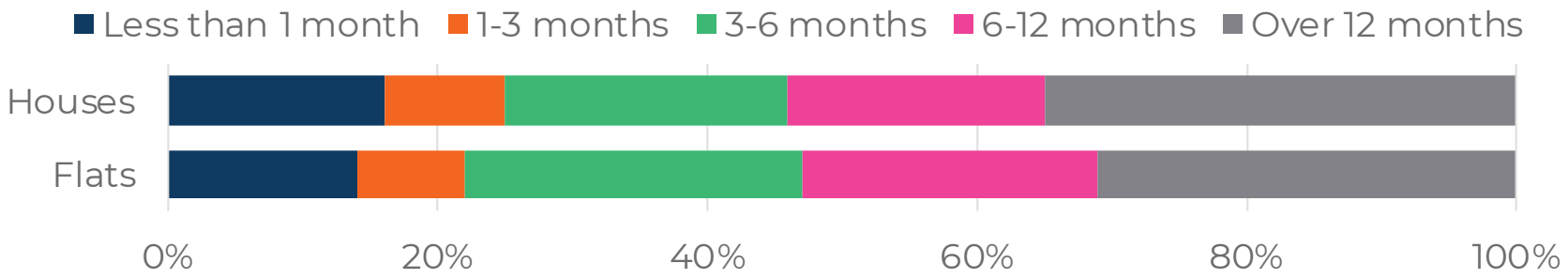


- Average discounts (achieved price vs. initial asking) in PCL (all markets and price bands) increased between 2014 and 2019 (low of 3.3% in Q2 2014 and peak of 11.7% in Q2 2019).
- Over the past 12-18 months, discounts have reduced, but this has mainly been driven by the performance of houses.
- Average discount for a £3-15m house was 9.0% in the year to Q2 2020, vs. 11.3% for a flat in the same price band.

Source: LonRes

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

TIME ON THE MARKET



40.7%	11.5%	+2.4%
Over 2 in 5 properties have been discounted	Around 1 in 9 are currently under offer	Stock levels are slightly above where they were a year ago

- For current listings in PCL, over half have been on the market for over 6 months. This is the case for both houses and flats.
- This data suggests an average time on the market of around 9 months.

Source: LonRes

Note: data on this page relates to properties of all values – not available by price band

THE INDUSTRY VIEW

"What stood out to me with this report, is that it is well researched, and the numbers come from reputable sources. Objectivity is key and this report has used data from all of the major estate agencies as well as land registry data. Certain research reports use in-house data, which can of course skew the trends presented and make it less rounded.

Looking at Prime Central London more closely, I question how Covid-19 is going to impact London generally and the service provision it will offer. The amount of people spending money in London has dramatically reduced and I wonder whether that will impact international investors who don't just buy the assets but buy into London as a destination."

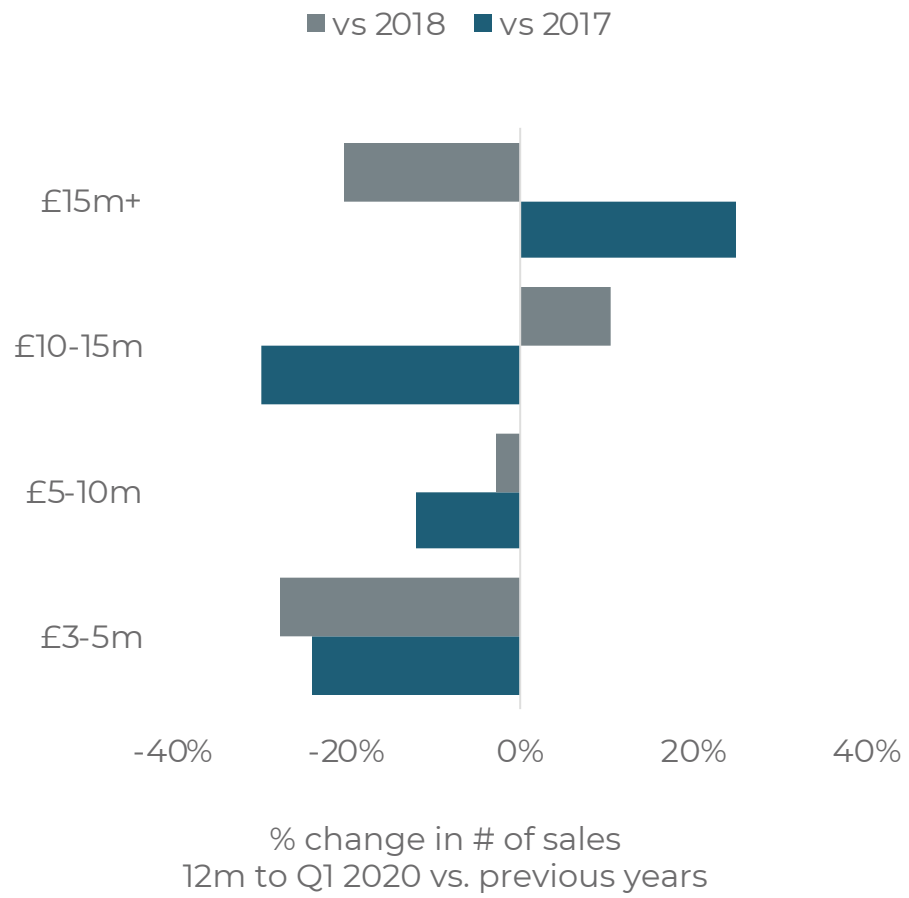
Roger Holman
Partner
Mark Davies & Associates Ltd



DEPTH OF MARKET

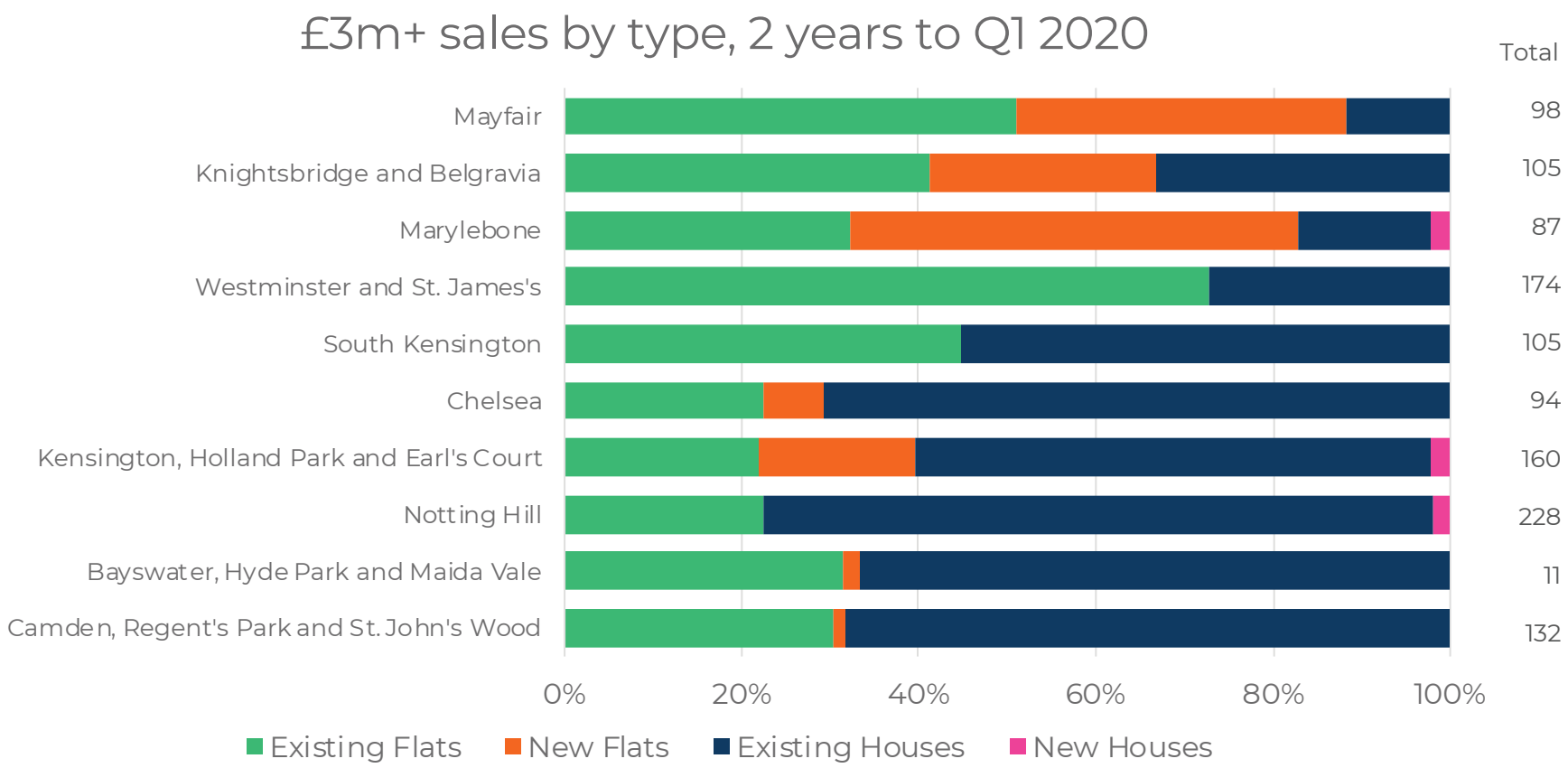
- The table shows £3m+ sales volumes by price band over the 12 months to Q1 2020. A comparison to the trends in 2017 and 2018 is shown in the chart on the right.
- There has been less activity at lower price points compared to past years, but above £10m volumes have held up a lot better.

Price band	Existing flats	New flats	Existing houses	New houses
£3-4m	72	13	104	0
£4-5m	39	2	68	1
£5-6m	19	10	47	0
£6-7m	8	12	25	0
£7-8m	13	3	17	0
£8-9m	6	9	12	0
£9-10m	4	2	12	0
£10-12.5m	3	9	14	0
£12.5-15m	4	4	8	0
£15-17.5m	3	0	7	0
£17.5-20m	0	4	0	0
£20-25m	3	0	5	0
£25-30m	1	0	3	0
£30-40m	3	0	2	0
£40-50m	0	0	2	0
£50m+	1	1	0	0



Source: Land Registry Price Paid Data

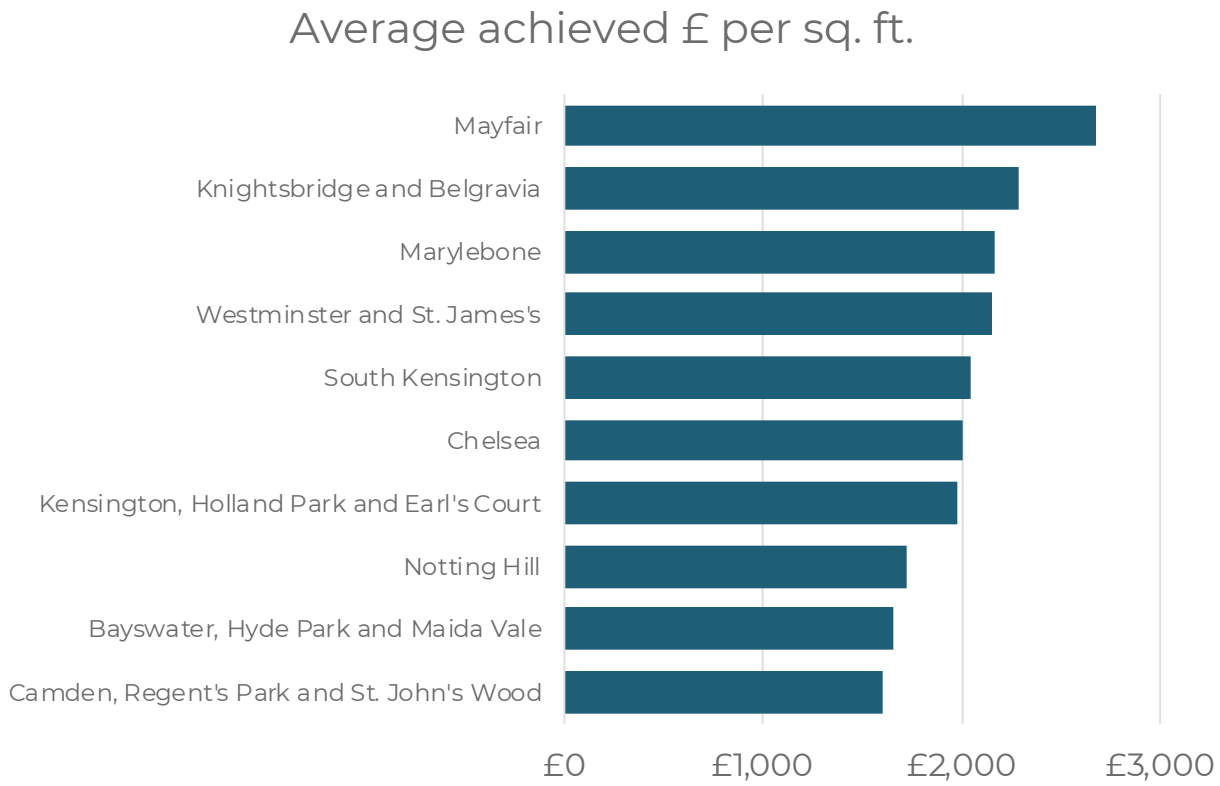
LOCAL ANALYSIS: PART ONE

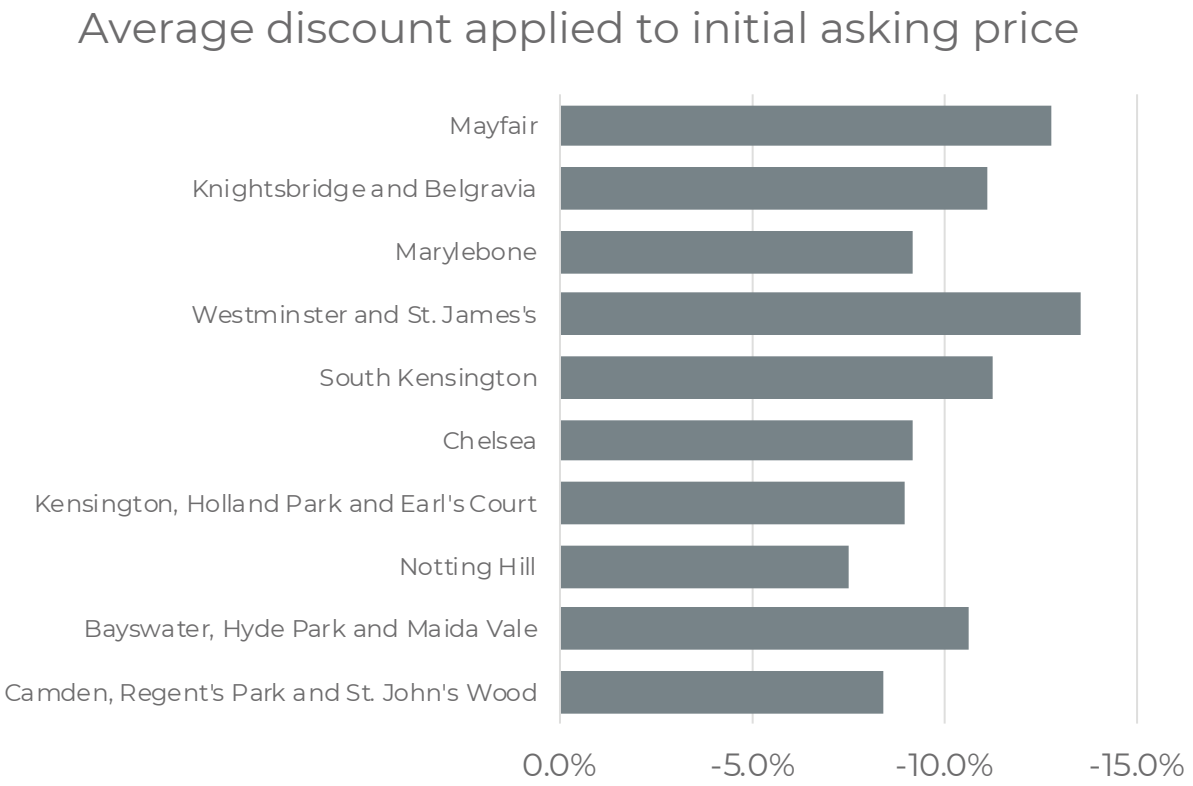


- New build homes have accounted for around 15% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 54% to 46%.
- Mayfair and Marylebone had the highest proportion of new build activity thanks to two schemes: The Chilterns and Clarges, Mayfair.

Source: Land Registry Price Paid Data

LOCAL ANALYSIS: PART TWO

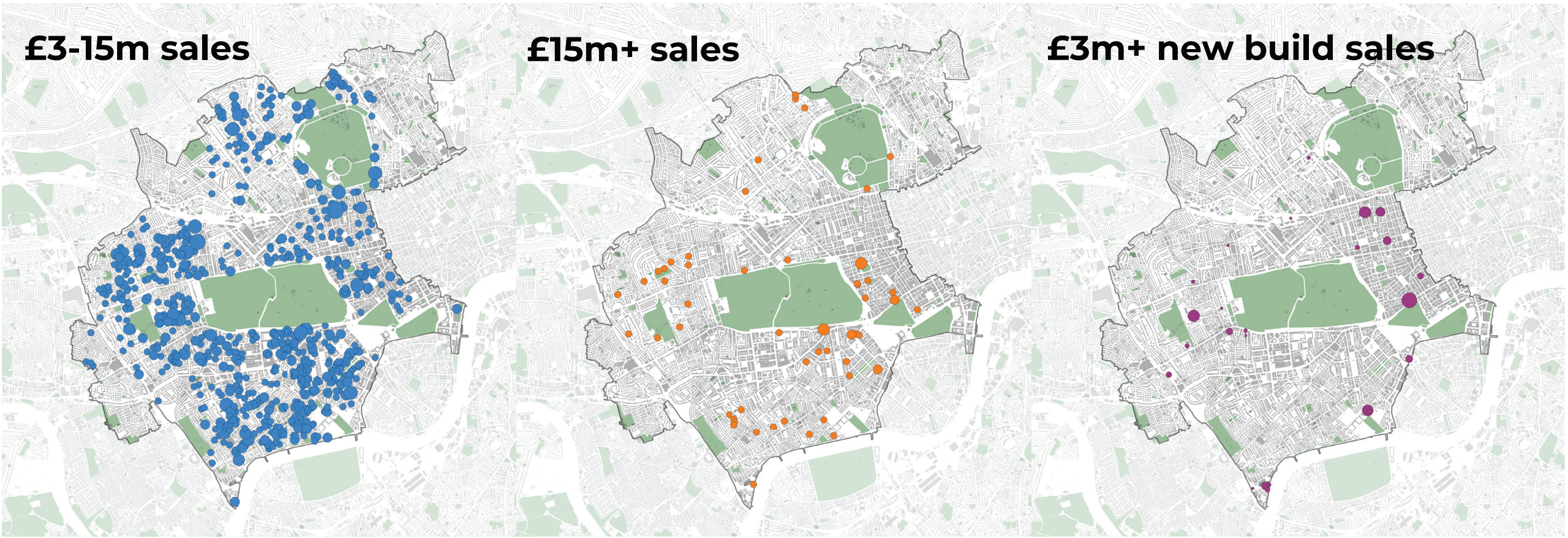




Source: LonRes

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ACTIVITY MAPS



Source: OS OpenData, HM Land Registry.

Notes: Size of dot = # of sales. All recorded sales since April 2018 to March 2020. First two maps second hand only.

THE INDUSTRY VIEW

"This report is really pertinent to what we have been seeing activity-wise in the prime Central London property market from March 2020 to-date. This includes what type of property has been selling, at what price and to whom.

We will be sharing this report with our international clients who regularly ask whether certain property assets in London provide value for money. The same clients are also keen to see London property market activity over a period of time which helps to better inform their decisions."

Sarah Conway
Partner – Head of Real Estate
Maurice Turnor Gardner



FORECAST SUMMARY

	Agent	2019	2020	2021	2022	2023	2024	5 year
Prime Central London	Savills	-	-2.0%	4.0%	7.0%	4.0%	2.0%	**15.7%**
	KF	-	1.0%	3.0%	4.0%	5.0%	4.0%	**19.3%**
	JLL	-	-4.0%	4.0%	7.0%	4.0%	3.0%	**14.4%**
	CBRE	2.0%	3.0%	4.0%	4.0%	5.0%	-	**19.3%**
Greater London	Savills	-	-7.5%	6.0%	3.0%	1.5%	1.5%	**4.0%**
	KF	-	0.0%	2.0%	3.0%	4.0%	3.0%	**13.6%**
	JLL	-	-8.0%	3.0%	6.0%	5.0%	4.0%	**9.7%**
	CBRE	0.0%	2.0%	4.0%	4.0%	1.0%	-	**11.4%**

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

- As we said back in our Q3 2019 note, otherwise sound forecast models often become out of date due to external factors, and that is certainly the case at the moment. Most commentators expect price falls in the short term across all regions and markets, but the size and timing of these falls is hard to discern until more data becomes available.
- Of the major agency research teams, only Savills and JLL have published full five year sets of post-pandemic forecasts.
- They both see 5 year growth in PCL of ~15% (as before the pandemic), and the recovery picking up pace in 2022.
- Knight Frank haven't published full forecasts but predict falls of 5% for *all* Prime London property in 2020 (not comparable to PCL or Greater London).

RISKS AND OUTLOOK



Positive	Negative
SDLT reform (again) The threshold at which Stamp Duty applies has been raised to £500k until March 2021. While this £15k discount offers little direct boost for £3m+ Central London markets (less than half a % discount), it is likely to increase overall confidence in the housing market. Combined with the pent-up demand from lockdown, this could sustain a strong market for the rest of the year, but beyond that the outlook is uncertain.	**Covid-19** Beyond the immediate health impact, Covid-19 is set to cause the largest economic shock of modern times. How well the various Government interventions (furlough scheme, grants, loans etc.) protect jobs and businesses remains to be seen. In the shorter term, cautious valuations and lending are likely to dampen activity across all markets. International sales in particular are likely to be very negatively affected by the pandemic, with opportunities for working and studying in Britain potentially limited for some time.
Economic stimulus Continued low interest rates and further quantitative easing (QE) will support asset prices in general and reduce the need for forced selling. PCL values are not at cyclical highs so unlikely to see large price falls – low activity and stagnant pricing more likely.	**Wealth taxes** Wealth or luxury taxes have previously been seen as too 'politically difficult' but, with a large majority and a need to rebuild the public finances, may now be considered by the Government. Chancellor Rishi Sunak has already set out a review of Capital Gains Tax – potentially the first move in this direction.