

JUSTIN MASON
VALUATION • CONSULTANCY

PRIME CENTRAL LONDON UPDATE

MAY 2021



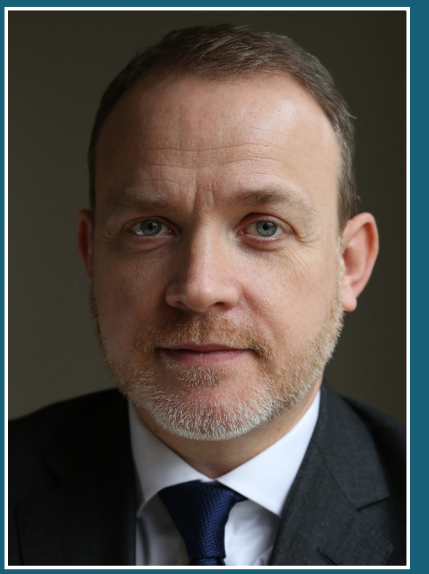
CANAL STREET RESEARCH

KEY HIGHLIGHTS

- Prime Central London* transactions fell slightly in Q1, with 150 recorded by LonRes** compared to 184 in Q4. But this quarter's figure is 33% higher than Q1 2020's 113 sales.
- Over the past year, 542 sales were recorded in this market. Adjusting for the period of market closure due to lockdown in Q2 2020, this is broadly in line with performance since 2016, but remains down on the 600+ typically recorded per year prior to that.
- The price falls seen through 2020 in the opinion-based indices now seem to have bottomed out and the latest raw data indicates slight growth in values on a quarterly basis.
- The average discount to asking price continued to fall in Q1 for the £3-15m house market, but discounts for flats grew slightly.
- Forecasting remains challenging with many agents updating their figures regularly in response to changing housing market and economic data. With values a long way below their 2015 peak, there is scope for prices to recover strongly over the next few years. There appears to be a consensus among the PCL agents that the strongest growth will now occur in 2022, with a slower pace this year due to gradual increases in international travel.

*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 property professionals working in London

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MARKET BACKGROUND



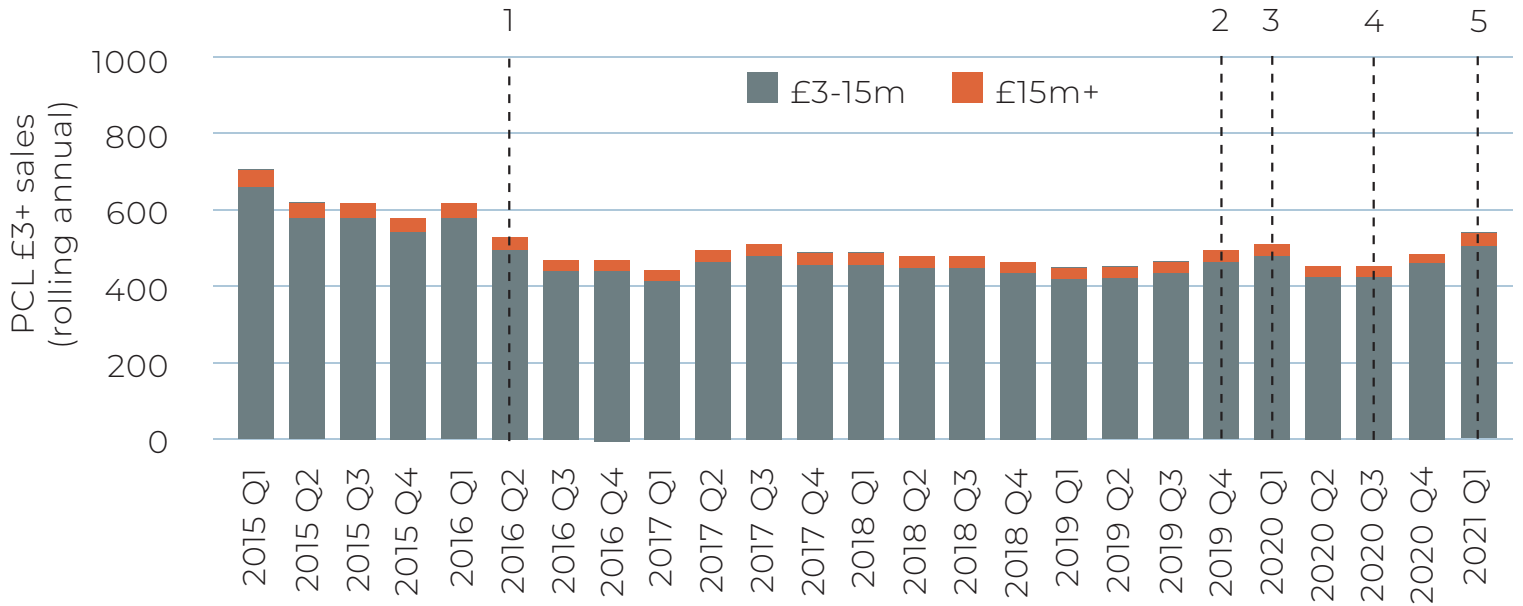
Source: OS OpenData

Area	Transactions (2020)	Compared to last Q (12m to Sep 20)
England	666,000	Down 36,000 (-5%)
London	74,700	Down 4,000 (-5%)
Camden, Westminster and RBKC	5,200	Down 500 (-8%)
PCL £3m+	530	Down 50 (-9%)

Source: Land Registry Price Paid Data (figures rounded)

- 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	July 2020	Q1 2021
1: 3% SDLT surcharge and Brexit referendum	2: UK General election - Johnson majority	3: First Covid-19 lockdown starts	4: Stamp Duty holiday	5: Third National Lockdown

- A year has passed since the first lockdown, and in general, the housing market has avoided any significant negative impact. Activity over the last year in the £3m+ PCL market was at a similar level to the preceding 12 months (542 sales per year to Q1 2021 vs. 531 to Q1 2020, based on LonRes data).

- In Q1 alone, there were 150 transactions, which is above the quarterly average for the past five years and 33% above Q1 2020.

TRANSACTION TRENDS

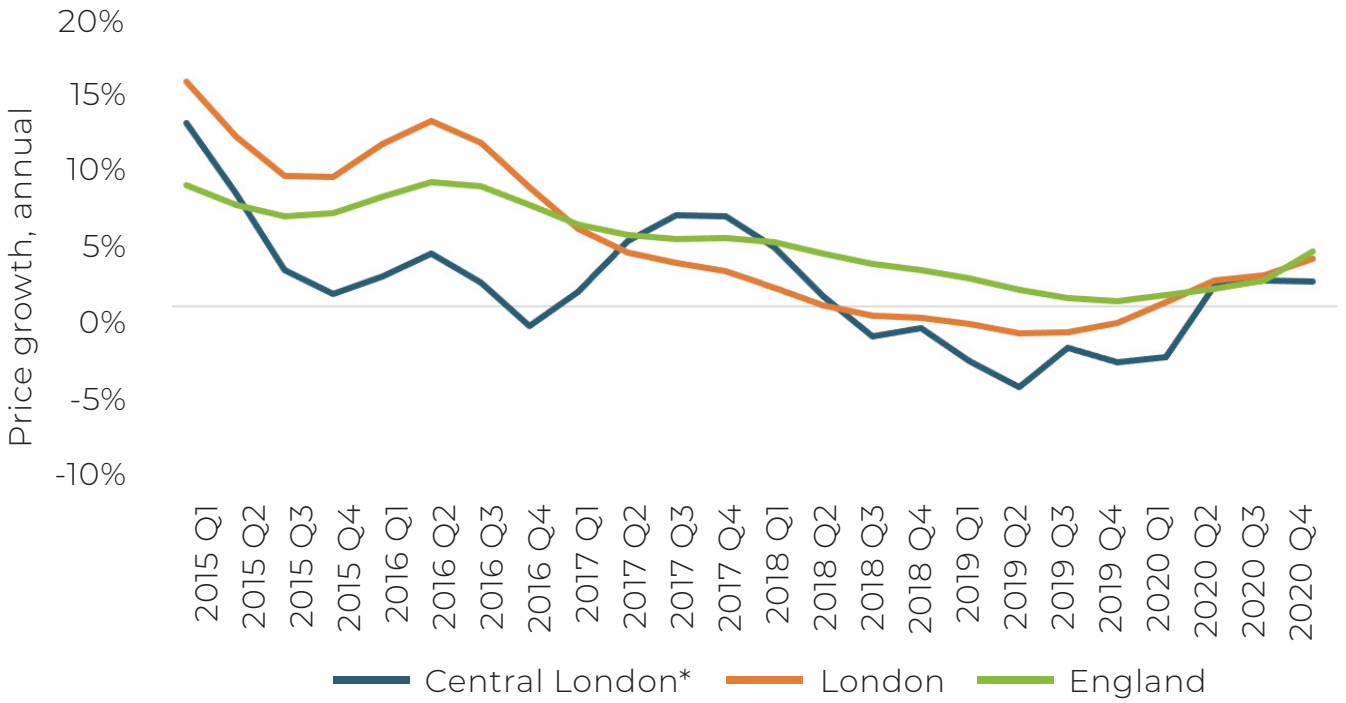
- The vaccine rollout and the unlocking of the economy have so far been proceeding as planned. This should have a positive impact on wider economic sentiment and, if further waves or variants of the virus can be avoided, support housing market activity through the rest of 2021. For PCL, the return of international travel, which could still be months away, will be needed to further restore normality to the market.

- The impact of Brexit on the economy and prime housing markets is hard to discern while the pandemic continues. Some cross-border trade issues were reported in Q1 as the free trade agreement came into effect, but in terms of PCL demand, the long-term impact on London as a professional and financial services hub will be more important.

- On the topic of taxation, the SDLT holiday up to £500k was extended for three months, then tapered for another three, but the surcharge for overseas buyers came into effect on 1st April as planned. Combined with the continuing economic recovery, these timings should reduce any possible 'cliff edge' with activity dropping significantly again.

- Continuing the tax theme, none of the anticipated changes to capital gains tax, ranging from minor tweaks to the threshold through to a new wealth tax, materialised in the Budget or the subsequent 'Tax Day' when the details are published. The narrative of paying back the emergency pandemic spending remains, so tax rises for high-net-worth individuals and expensive homes could still emerge next year.

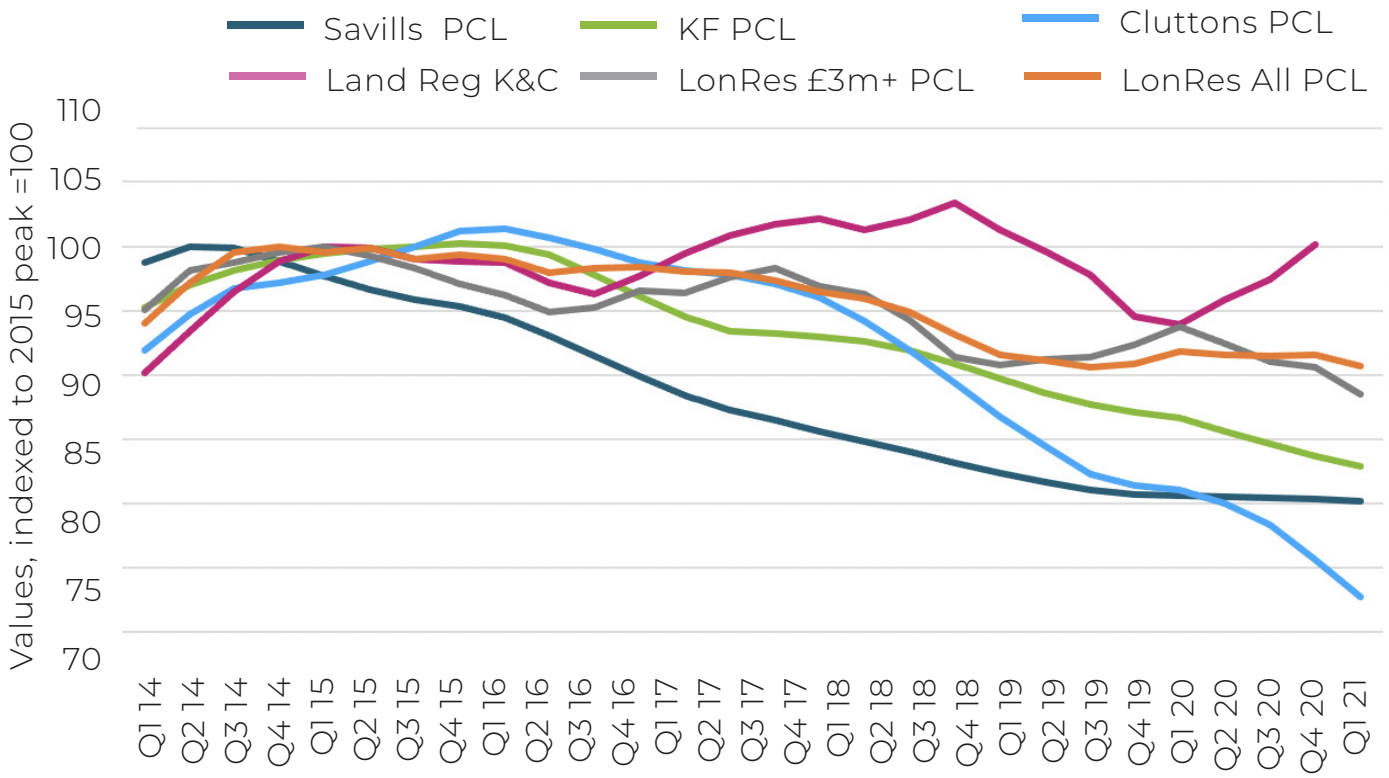
HOUSE PRICE HISTORY



Source: LonRes, ONS UK HPI (data smoothed, 6 months).
**Central London defined as Westminster, RBKC and Camden average – a larger area with lower average values than the PCL area used in the rest of the report.*

- Mainstream house prices have been relatively immune to the wider economic news, growing strongly through 2020 at national level, with London (and Central London) experiencing growth as well.
- Q4 saw an annual increase in average values in the Central London boroughs* of 1.8%, according to the ONS index.
- Both regional (3.3%) and national (3.8%) average house price growth were stronger over the same period.

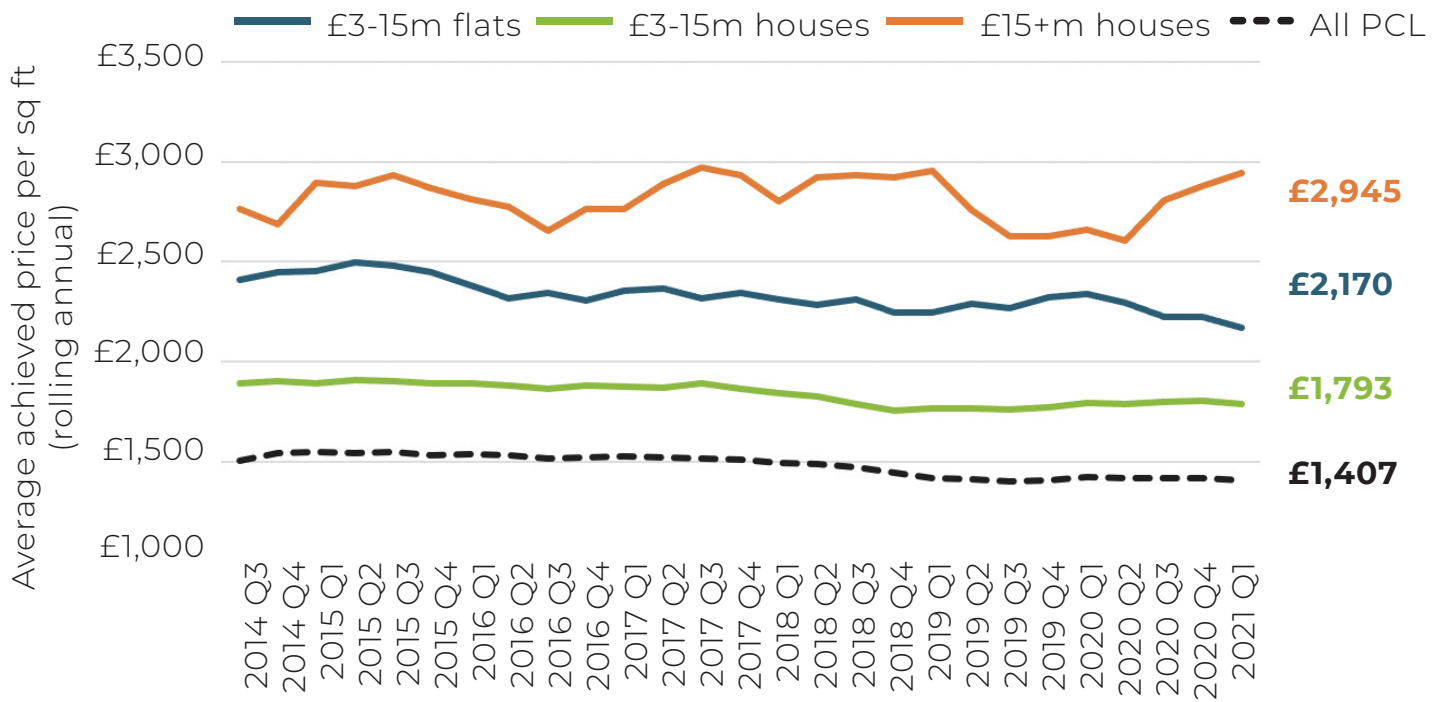
ACHIEVED PRICES AND AGENTS' INDICES



Source: Land Registry, Savills, Knight Frank, Cluttons, LonRes
All data 12-month smoothed

- 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 values.
- The agents' indices again suggest values are continuing to fall, but at a slower pace in most cases compared to mid/late 2020. The latest quarterly/ monthly figures from Savills and Knight Frank showed a slight bounce back so the falls may now have bottomed out. Again, the Land Registry index tells a different story with strong growth in Q4.
- The LonRes March Update reported that achieved prices in PCL fell by 1% in the three months to February compared to the same period a year earlier. LonRes achieved £ per sq ft data is also included here for comparison, showing slight falls this quarter but lower overall falls versus the 2015 peak values.
  (Note: LonRes data is not an index, see next section)

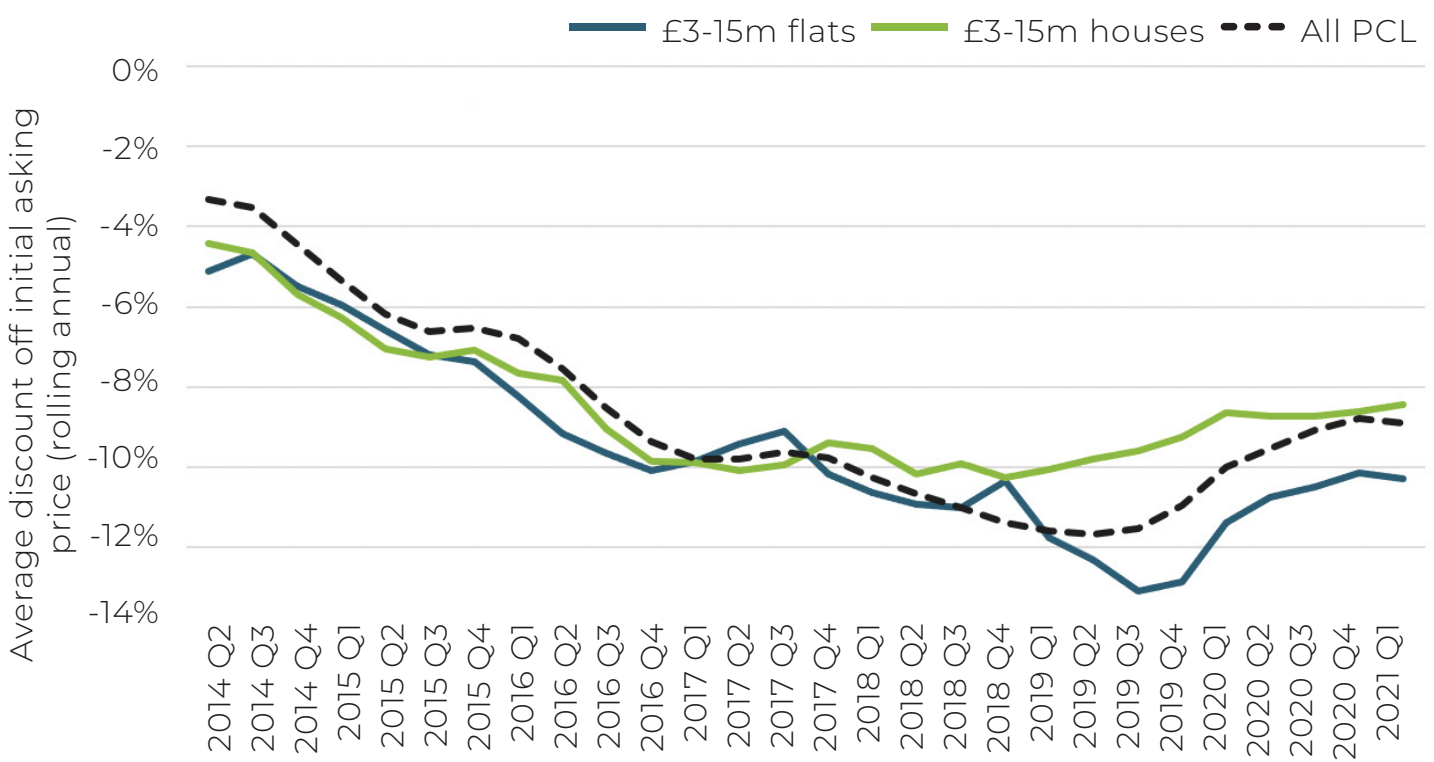
ACHIEVED £ PER SQ FT BY YEAR



Source: LonRes

- On an annual basis, values for all PCL have been approximately flat (£1,407 in Q1 2021 vs. £1,425 in Q1 2020), with a similar lack of change in the £3-15m house market. £3-15m flat values fell in Q1 by 7% compared with a year earlier. £15m+ houses saw an 11% annual rise in Q1, recovering 2019's falls, but this is a smaller sample and is more volatile.
- Over the past five years the changes in £ per sq ft values are as follows:
  - -9% for £3-15m flats
  - -5% for £3-15m houses
  - +5% for £15m+ houses
  - -9% for all of PCL
- These figures are simple averages rather than an index, but indicate lower falls in the values of sales actually agreed compared to the opinion-based indices.

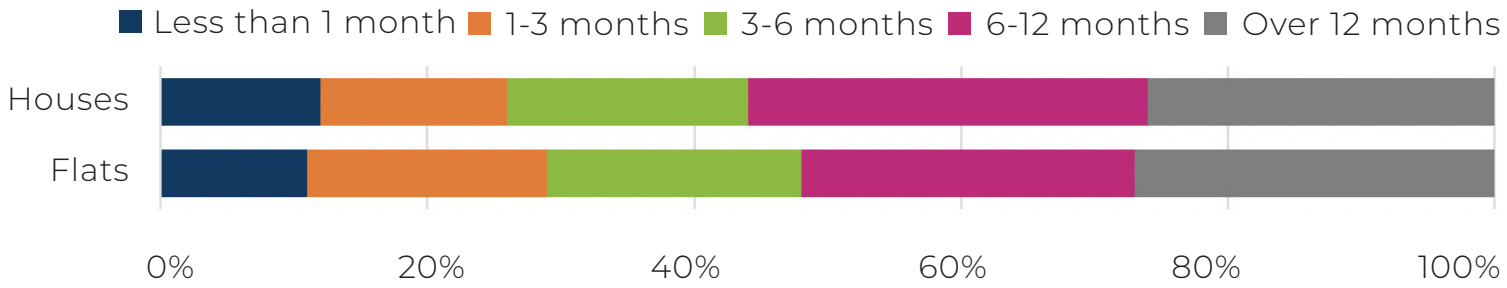
AVERAGE DISCOUNT TO ASKING PRICE



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

- Average discounts across PCL rose slightly in Q1 (to 8.9%) after reducing steadily over the past two years.
- In the £3-15m markets the average discount for flats rose slightly, but for houses there was a small reduction.
- Discounts in all markets continue to be significantly higher than 2014, when achieved prices were within 5% of asking on average.

TIME ON THE MARKET



43.5%

Over 2 in 5 properties have been discounted

14.3%

Around 1 in 7 are currently under offer

+29.0%

Stock levels are higher than 1 year ago

- For current listings in PCL*, over 50% 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 8.5 months.
- The 'less than 1 month' band saw a large increase this quarter, suggesting significant new stock coming to market.

Source: LonRes, data for Q1 2021 only
**Time on market data relates to PCL properties of all values – not available by price band*

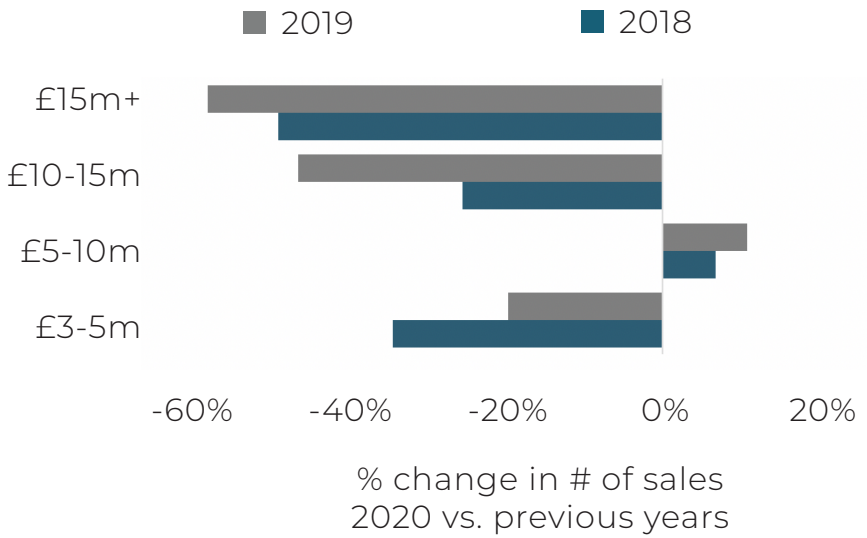
DEPTH OF MARKET

- The table shows £3m+ sales volumes by price band in 2020, according to Land Registry completions data. A comparison to the trends in the two previous years is shown in the table.

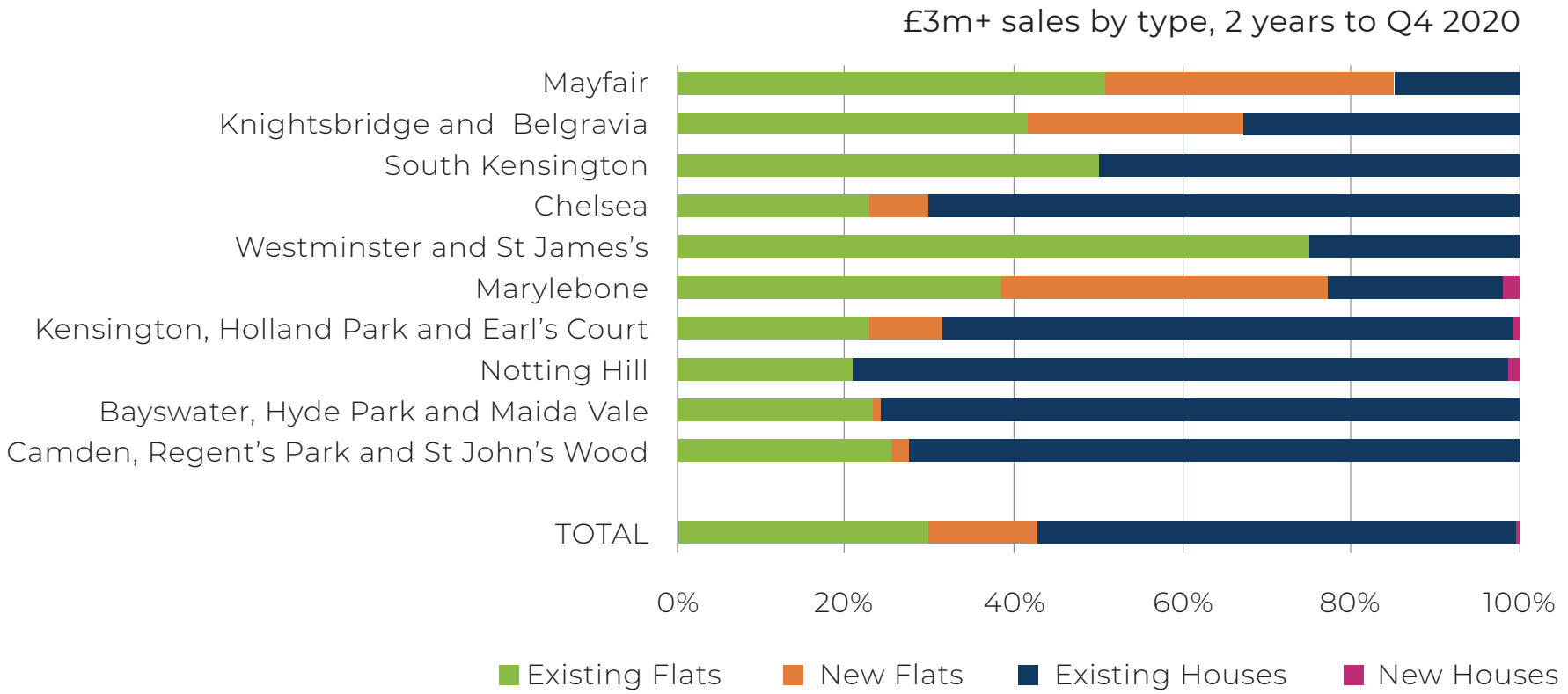
- Relative to previous years, activity over the past 12 months is down in the £3-5m price band and for bands £10m and higher, with turnover in the £5-10m range performing better. This is in line with our experience of valuing a number of large sales in this band, mainly UK domiciled buyers and particularly in Notting Hill and Kensington and Chelsea.

Price band	Existing flats	New flats	Existing houses	New houses
£3-4m	73	4	108	0
£4-5m	31	5	61	0
£5-6m	25	8	47	0
£6-7m	17	5	29	0
£7-8m	10	2	24	0
£8-9m	5	7	21	0
£9-10m	4	1	13	0
£10-12.5m	1	1	15	0
£12.5-15m	1	3	8	0
£15-17.5m	1	1	4	0
£17.5-20m	1	3	3	0
£20-25m	0	3	2	0
£25-30m	0	0	2	0
£30-40m	0	3	0	0
£40-50m	0	1	0	0
£50m+	1	0	0	0
TOTAL	**170**	**47**	**337**	**0**

Source: Land Registry Price Paid Data



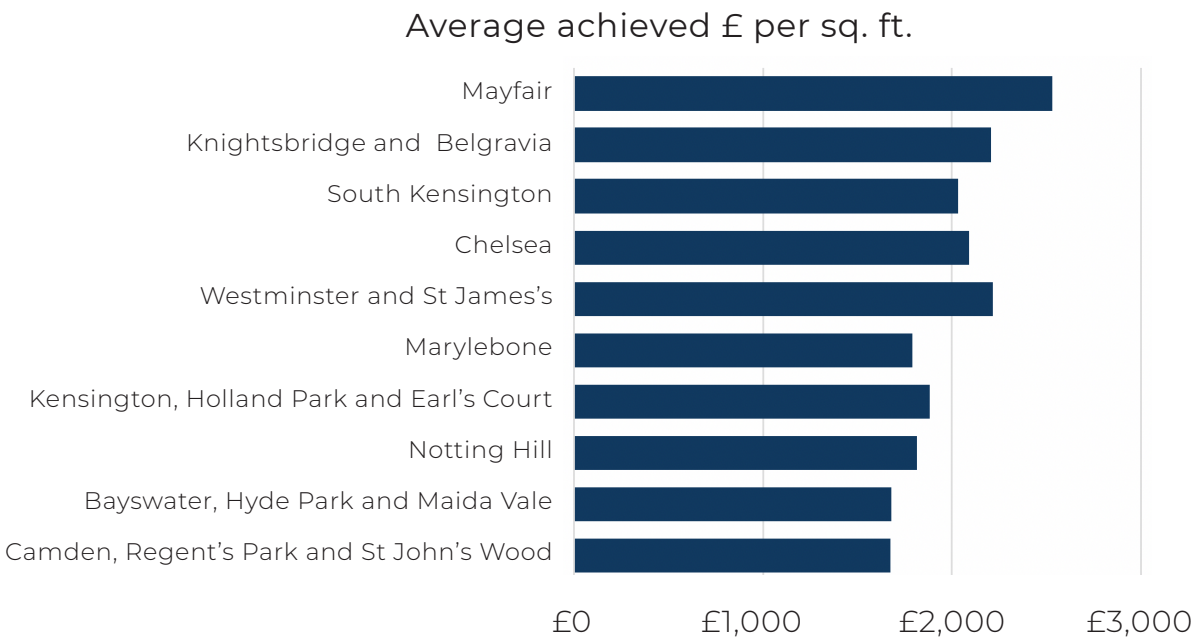
LOCAL ANALYSIS: PART ONE



- New build homes have accounted for 12% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 57% to 43%.
- Mayfair, Marylebone and Knightsbridge & Belgravia had the highest proportions of new build activity.

Source: Land Registry Price Paid Data

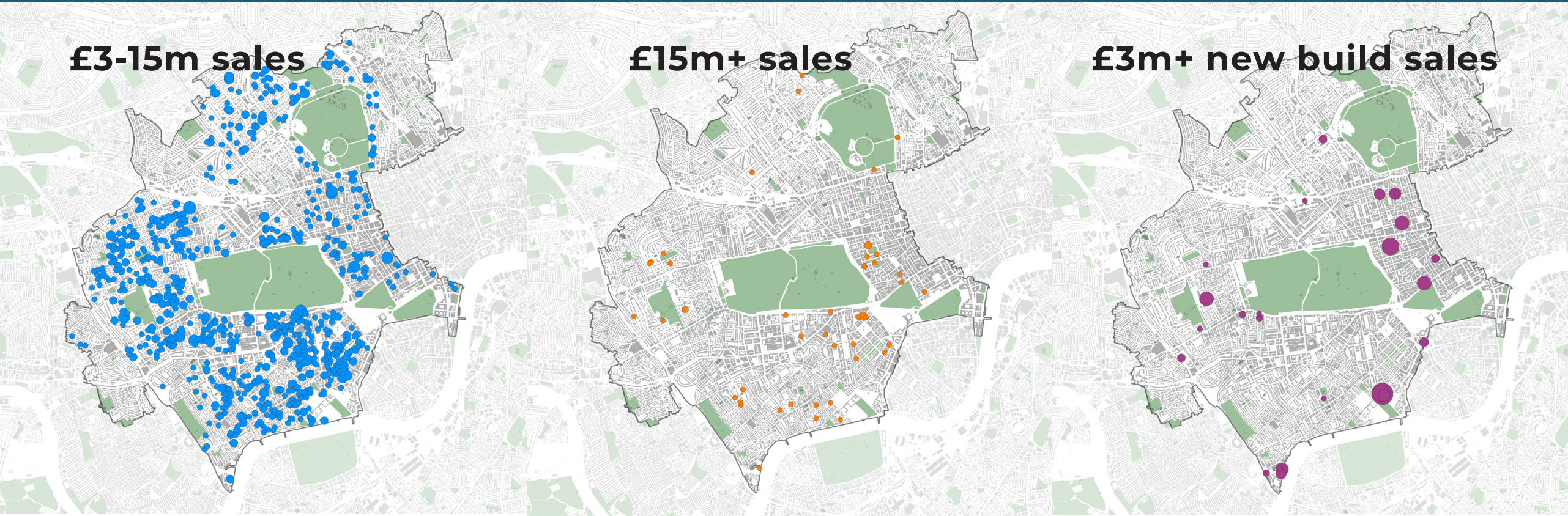
LOCAL ANALYSIS: PART TWO





Source: LonRes £3m+, 12 months to Q1 2021

ACTIVITY MAPS



Source: OS OpenData, HM Land Registry.

Notes: Size of dot = # of sales. All recorded sales Jan 2019 to Dec 2020. First two maps pre-owned only.

FORECAST SUMMARY

- The changing economic and political landscape through the pandemic continues to make forecasting house prices extremely challenging. Although most forecasters have revised their figures in Q1, some of the variance between forecasts is a function of when the figures were most recently updated. Overall, with the falls of 2020 out of the way, the main points of difference are the size and shape of the recovery.
- Knight Frank and Savills both released new forecasts in March, for prime and mainstream markets.
- Knight Frank's PCL update saw slightly lower growth expected in 2021, with more of the recovery coming next year, but the overall level of growth unchanged. Their mainstream London forecast is now much more positive, with higher growth expected this year and next, but they still see PCL outperforming London as a whole over the five-year period (25.1% vs. 18.2%).
- Savills also made a slight downwards revision to PCL growth in 2021, and agree that the pace of recovery will peak in 2022. Their Greater London figures were also revised up, but remain pessimistic compared to other forecasts.
- Cluttons' latest figures are from February. They are the most positive over the five years (but their index reported the biggest falls in 2020) and also see the strongest growth arriving in 2022.
- JLL's latest forecasts remain the same as those published in November. They expect prices to be relatively flat this year, followed by stronger growth from 2022 to 25, both for PCL and Greater London.

FORECAST SUMMARY

	Agent	*Last updated*	2021	2022	2023	2024	2025	5 year (21-25)
Prime Central London	Savills	Mar 2021	3.0%	7.0%	4.0%	2.0%	*4.0%*	**21.6%**
	Knight Frank	Mar 2021	2.0%	7.0%	5.0%	4.0%	*5.0%*	**25.1%**
	JLL	Nov 2020	1.0%	5.0%	4.5%	4.0%	*3.5%*	**19.3%**
	Cluttons	Feb 2021	5.2%	7.5%	4.5%	4.2%	*4.0%*	**28.1%**
Greater Central (mainstream)	Savills	Mar 2021	2.5%	4.5%	2.0%	2.0%	*1.0%*	**12.6%**
	Knight Frank	Mar 2021	4.0%	4.0%	3.0%	3.0%	*3.0%*	**18.2%**
	JLL	Nov 2020	0.0%	2.5%	5.0%	6.5%	*5.0%*	**20.4%**

Source: Agent websites and latest reports. All figures nominal.
Notes: Cluttons do not publish Greater London forecasts. CBRE have not published updated UK residential forecasts so are not included this quarter.

RISKS AND OUTLOOK

Positive	Negative
UK unlocking The UK has been able to reduce Covid infection, hospitalisation, and death rates. This has allowed the unlocking of the domestic economy to proceed broadly as planned and restored confidence to consumers. This confidence has fed into the property markets, with buyers and sellers less reticent about viewing or listing properties, so we should expect more balance between supply and demand going forward.	**International vaccine issues** By contrast to the UK's success in this area, some countries are struggling to deliver their vaccine programmes. This has cast doubt on the reopening of international travel, with a potential negative impact on demand for property from by overseas investors, workers, or students, as well as on hospitality and tourism. Without these key drivers, PCL sub-markets favoured by international buyers may be slower to recover.
Continuing demand The pent-up demand generated by lockdowns may be finite, but a significant proportion of the population appear to have used the pandemic to rethink their housing needs and decided on a change. This continues to drive activity across all markets. For those relatively financially unaffected by Covid, buying power is likely to be very high. Interest rates continue to be very low, and higher income households have accumulated very high levels of savings, with their ability to spend on leisure and travel significantly curtailed.	**Shifting working patterns** While some companies have seen the relaxing of restrictions as a sign to get staff back in the office, there are questions over the wider scale of the return to five-day commuting. A survey of 2,000 UK companies by the CIPD suggests that two-thirds of employers are developing a hybrid work model to allow part-time office attendance. This could have a significant impact on the demand for main residences or pieds-a-terre in PCL.