

JUSTIN MASON
VALUATION • CONSULTANCY

PRIME CENTRAL LONDON UPDATE

NOVEMBER 2020



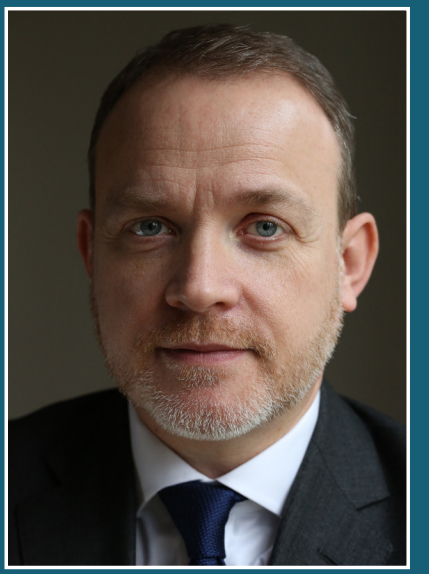
CANAL STREET
RESEARCH

KEY HIGHLIGHTS

- Prime Central London (PCL)* transactions increased in Q3, with 115 recorded by LonRes** compared to 76 in Q2. This quarter's figure is in line with Q3 2019's 119 sales.
- Over the past year, 467 sales took place in this market. Adjusting for the period of market closure due to lockdown, this is broadly in line with the total sales achieved year-on-year since 2016 but remains down on the 600+ typically recorded per year prior to that.
- Evidence on pricing of property in this location is limited as the pandemic has caused a reassessment of the value placed on location versus space, particularly outside space. Agents' index results for Q3 showed continuing small falls in PCL but with some variation across property types and price bands.
- The average discount to asking price fell to 9% in Q3, compared to 12% a year earlier.
- Forecasting remains challenging with the relevant housing market and economic data changing rapidly. The current consensus among the PCL agent forecasts is for prices to finish lower in 2020 and then bounce back strongly from 2021 to 2024, with expectations of five-year total growth of around 15%.

*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

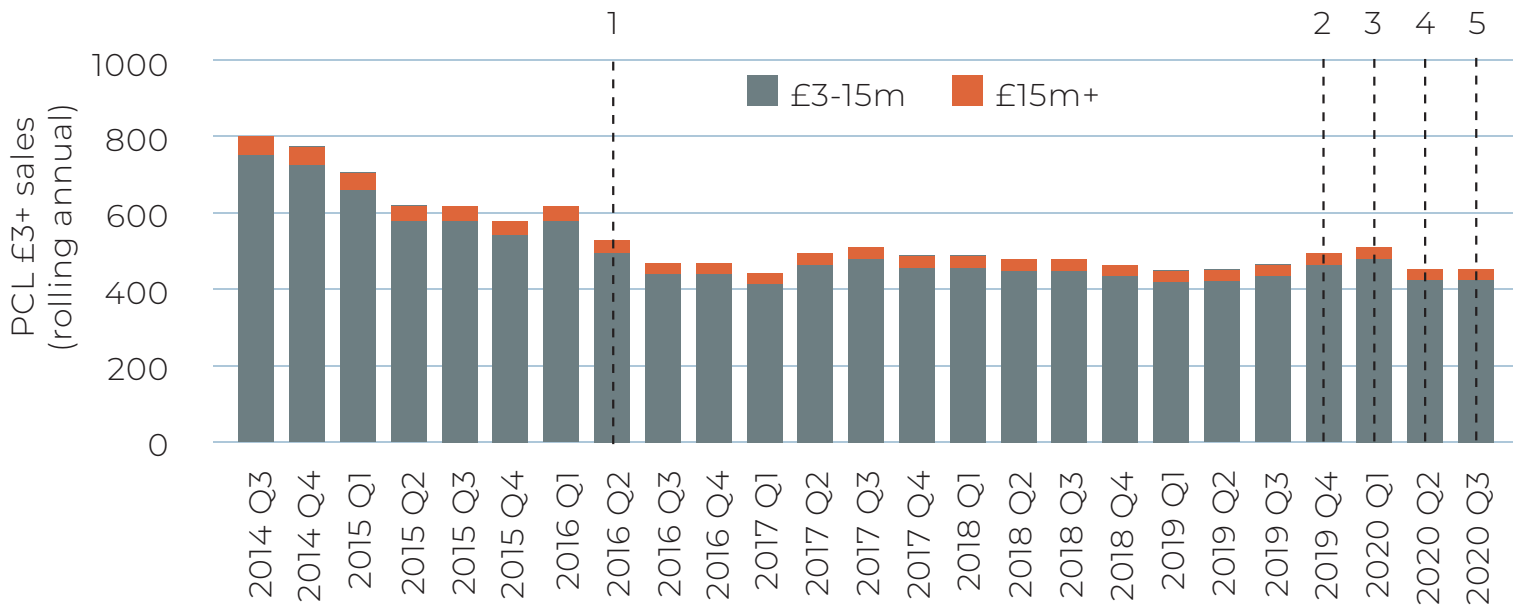


Area	Transactions (12m to June)	Compared to last Q (12m to Mar)
England	728,000	Down 62,000 (-8%)
London	81,000	Down 1,000 (-1%)
Camden, Westminster and RBKC	5,600	Up 600 (+12%)
PCL £3m+	550	Down 10 (-2%)

- The £3m+ Prime Central London (PCL) 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 that prices can be volatile.

Source: OS OpenData, Land Registry

TRANSACTION TRENDS

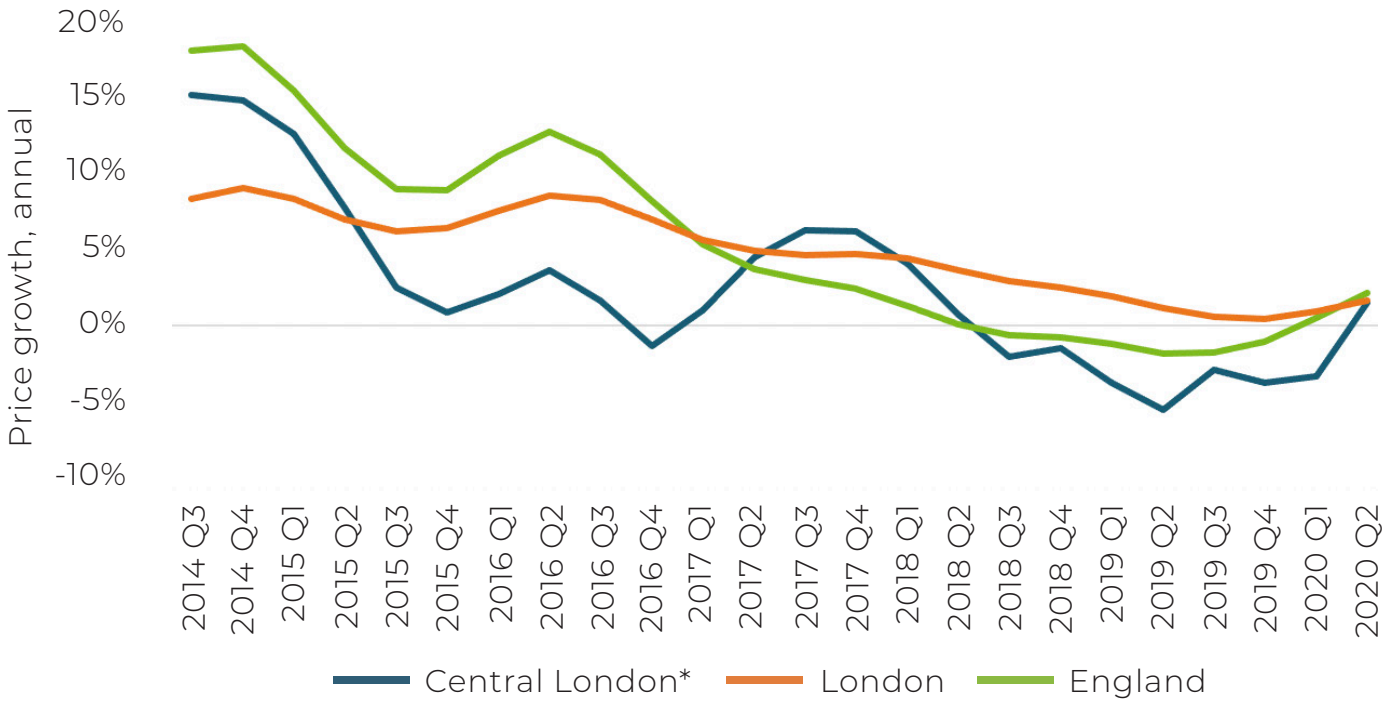


Source: LonRes

Q2 2016	Dec 2019	Mar 2020	May 2020	July 2020
1: 3% SDLT surcharge and Brexit referendum	2: UK General election - Johnson majority	3: Covid-19 lockdown starts	4: Lockdown eased (for housing market in England)	5: Stamp Duty holiday

- The optimism at the start of 2020 was quickly curtailed by Covid-19 and the resulting lockdown, with the UK economy officially entering into a recession in Q2. The monthly GDP estimates suggest that only 60% of the lost activity has been recovered so far, with momentum slowing as local lockdowns and other restrictions are introduced.
- In Q3, activity in the PCL £3m+ market continued at a similar pace to Q2, having dropped compared to Q4 2019 and Q1 2020. Any impact from improved sentiment over the summer (from the easing of lockdown restrictions and the Stamp Duty holiday) is yet to be seen in actual completed sales.
- Activity in this market has been relatively subdued following the Brexit referendum and 2016 Stamp Duty Land Tax (SDLT) changes. This is likely to continue if buyers adopt a cautious approach to further economic and health implications resulting from Covid-19 and the uncertainty of Brexit trade talks.
- But there are some shorter-term positives. Global citizens seeking a 'Plan B' still consider London a safe haven compared to many locations, and the introduction of a further surcharge for overseas buyers from April, combined with the scheduled end of the SDLT holiday, may bring forward some activity.

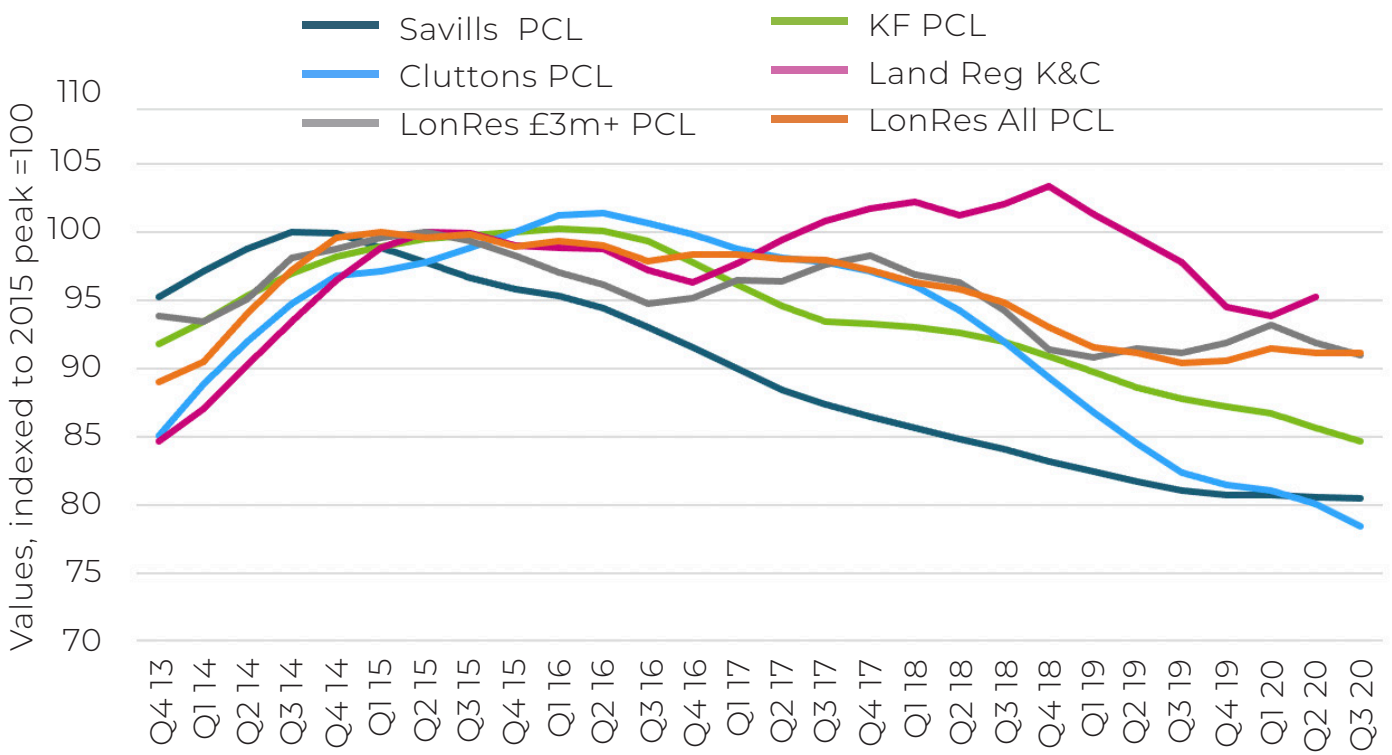
HOUSE PRICE HISTORY



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

- House price behaviour through the summer has surprised many industry commentators and forecasters from a positive standpoint.
- Values in Central London* showed an annual increase (+1.6%) in Q2 for the first time since 2018, according to the ONS index. This result should be treated with caution, however, given reduced activity during the quarter; it may be subject to revision as more transactions are included over time.
- Price growth in Central London is now broadly in line with the regional (2.2%) and national (1.6%) averages.

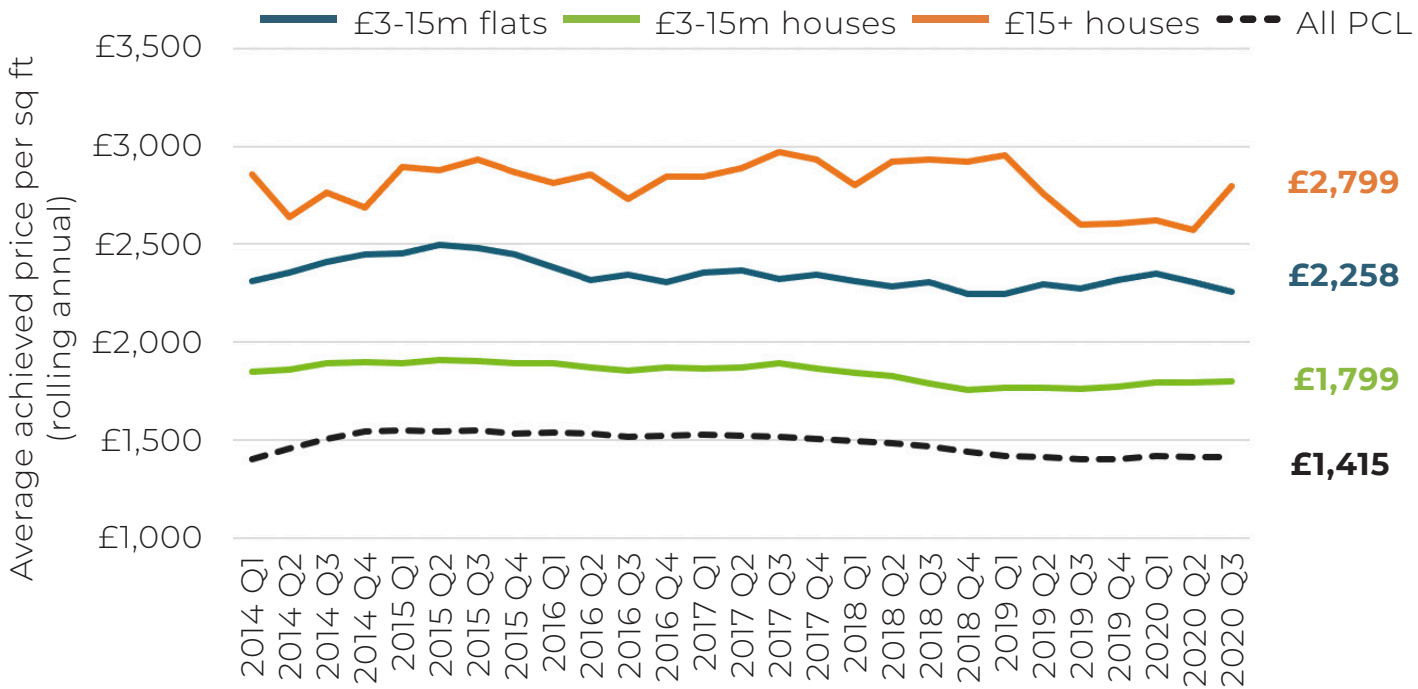
ACHIEVED PRICES AND AGENTS' INDICES



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 adjacent for comparison is the Land Registry index for Kensington & Chelsea, based on completed sales, however this covers a different area and a much wider range of values.
- The agents' indices all showed continued falls on an annual basis, although the latest quarterly Savills' figures suggested these were flattening out. In contrast, the Land Registry index recorded price increases in Q2, but the sales this is based on are likely to have been agreed pre-lockdown so do not tell us much about the current market.
- LonRes achieved £ per sq ft data is also included for comparison. This tracks the Land Registry data more closely, not showing the falls of the agent indices

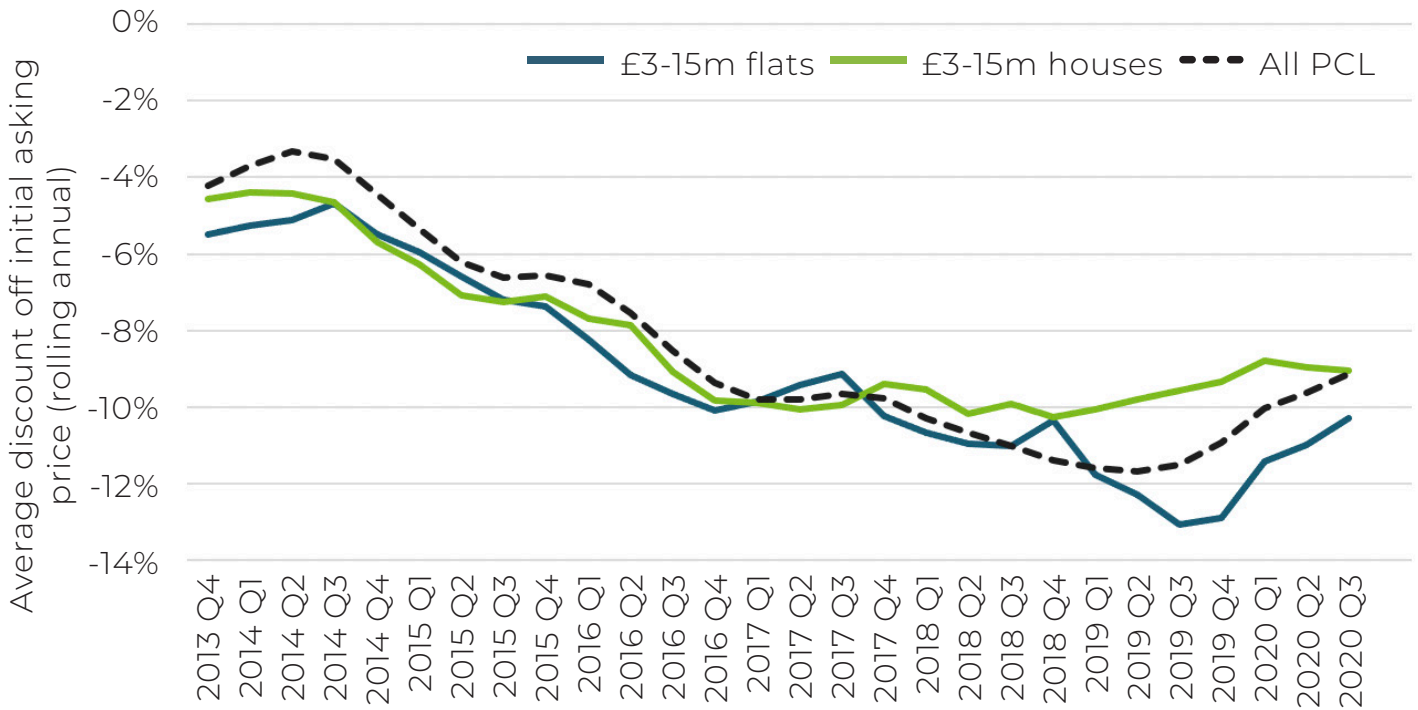
ACHIEVED £ PER SQ FT BY YEAR



Source: LonRes

- On an annual basis, values for PCL in its entirety have been somewhat flat (£1,415 in Q3 2020 vs £1,404 in Q3 2019), with a similar lack of change in the £3-15m markets. £15m+ houses saw an 8% annual rise in Q3, recovering recent falls, but this is a smaller sample and can be volatile.
- Over the past five years, all PCL markets have seen a small decline on a £ per sq ft basis:
  - -9% for £3-15m flats
  - -6% 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.

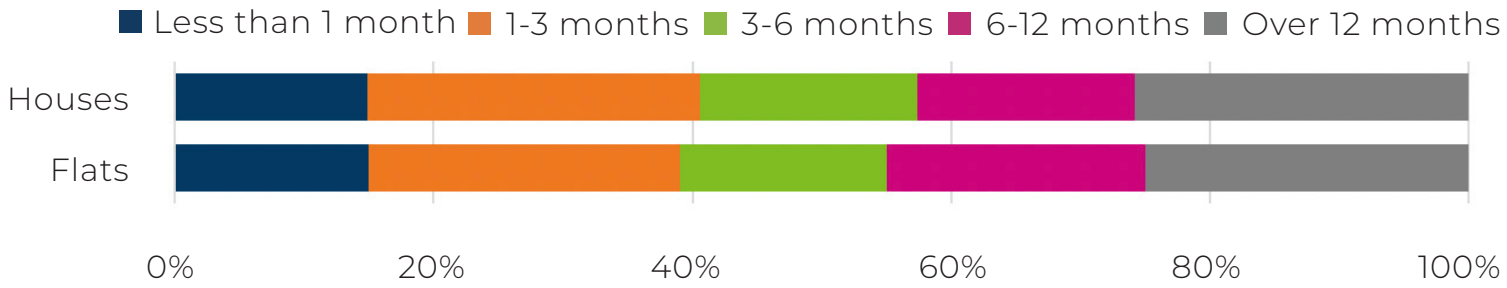
AVERAGE DISCOUNT TO ASKING PRICE



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

- Average discounts across PCL have been falling, standing at 9% in the year to Q3 2020 compared to 12% a year ago.
- In the £3m+ markets the story is similar, with flats in particular showing larger recent reductions thus closing the gap with houses.
- Discounts in all markets are still significantly higher than 2014, when achieved prices were within 5% of asking price on average.

TIME ON THE MARKET



- For current listings in PCL*, 45% 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 months.

43.4%	12.0%	+33.3%
Over 2 in 5 properties have been discounted	Around 1 in 8 are currently under offer	Stock levels are significantly above where they were a year ago

Source: LonRes, data for Q3 2020 only
**Time on market data relates to PCL properties of all values – not available by price band*

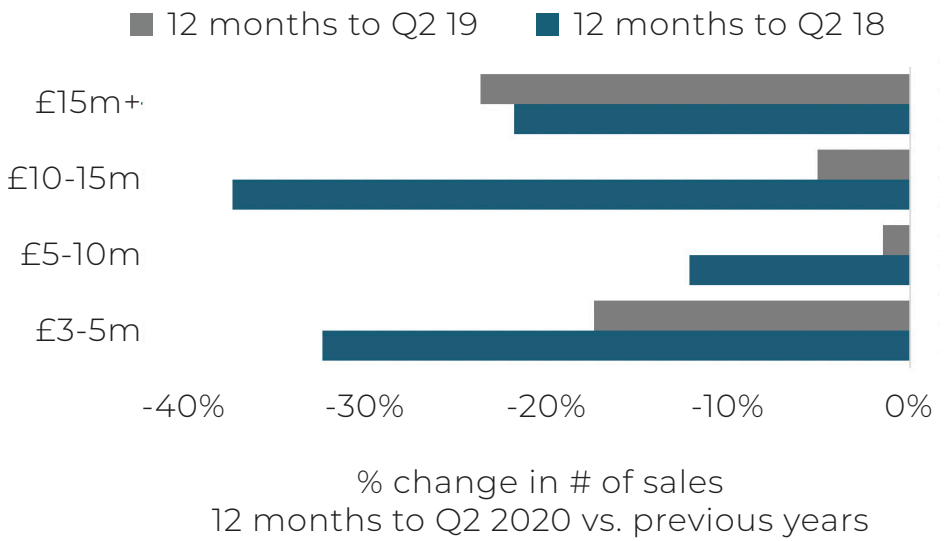
DEPTH OF MARKET

- The table shows £3m+ sales volumes by price band over the 12 months to Q2 2020, according to Land Registry completions data.
  A comparison of the trends over the two previous years is shown in the chart.

- Activity over the past 12 months is down across all price points relative to previous years, with the £5-10m band having the lowest shortfall.

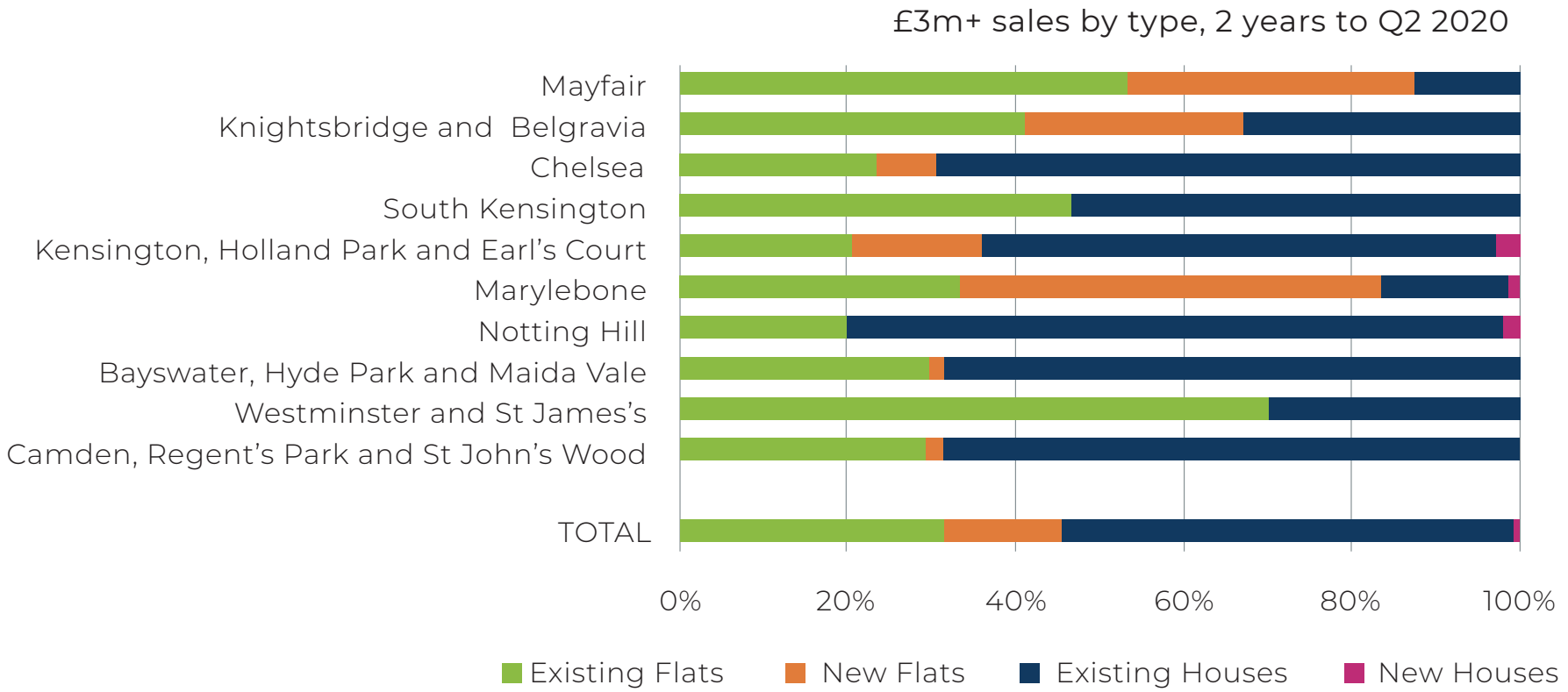
Price band	Existing flats	New flats	Existing houses	New houses
£3-4m	83	7	98	0
£4-5m	39	4	64	1
£5-6m	21	11	41	0
£6-7m	14	8	28	0
£7-8m	11	2	13	0
£8-9m	6	11	17	0
£9-10m	3	1	12	0
£10-12.5m	2	8	16	0
£12.5-15m	1	4	7	0
£15-17.5m	3	0	7	0
£17.5-20m	0	3	2	0
£20-25m	2	2	4	0
£25-30m	0	0	2	0
£30-40m	1	4	0	0
£40-50m	0	0	2	0
£50m+	1	0	0	0
TOTAL	**187**	**65**	**313**	**1**

Source: Land Registry Price Paid Data



% change in # of sales
12 months to Q2 2020 vs. previous years

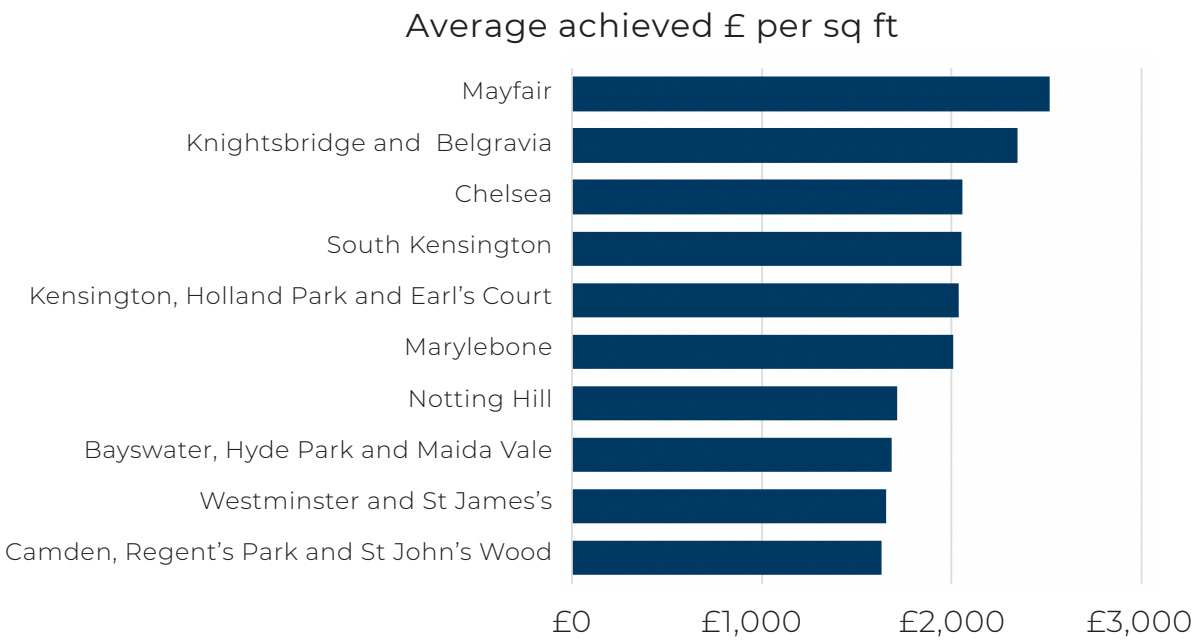
LOCAL ANALYSIS: PART ONE

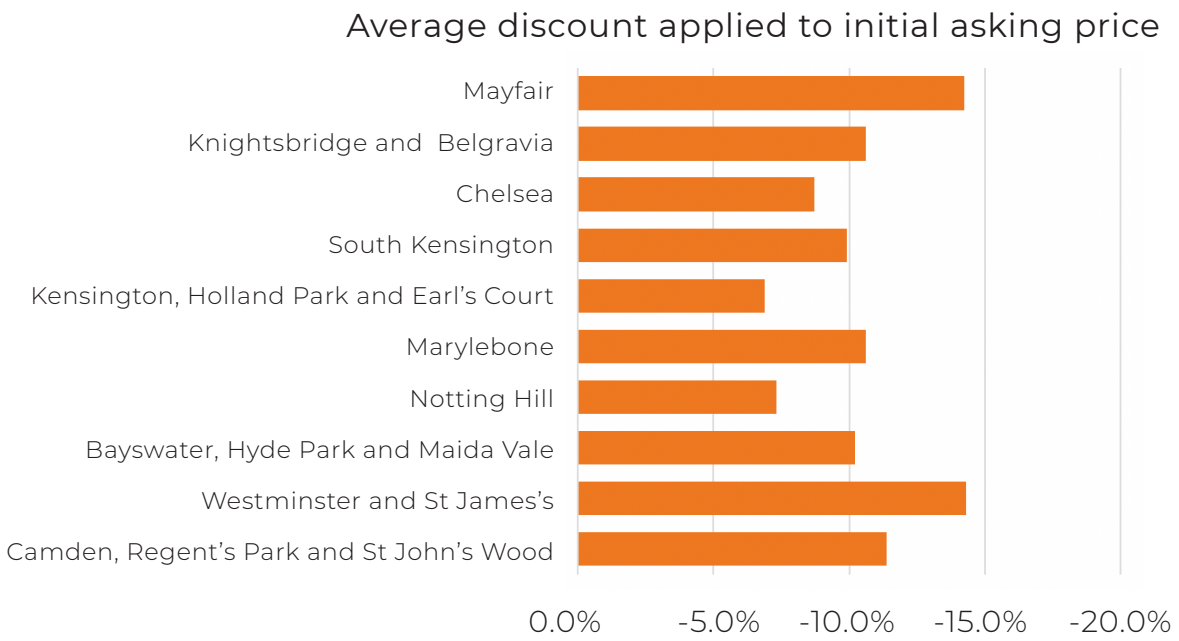


- New build homes have accounted for 14% of sales in the £3m+ market over the past 2 years.
- Overall, houses and flats were split 55% to 45%.
- Mayfair and Marylebone had the highest proportion of new build activity.

Source: Land Registry Price Paid Data

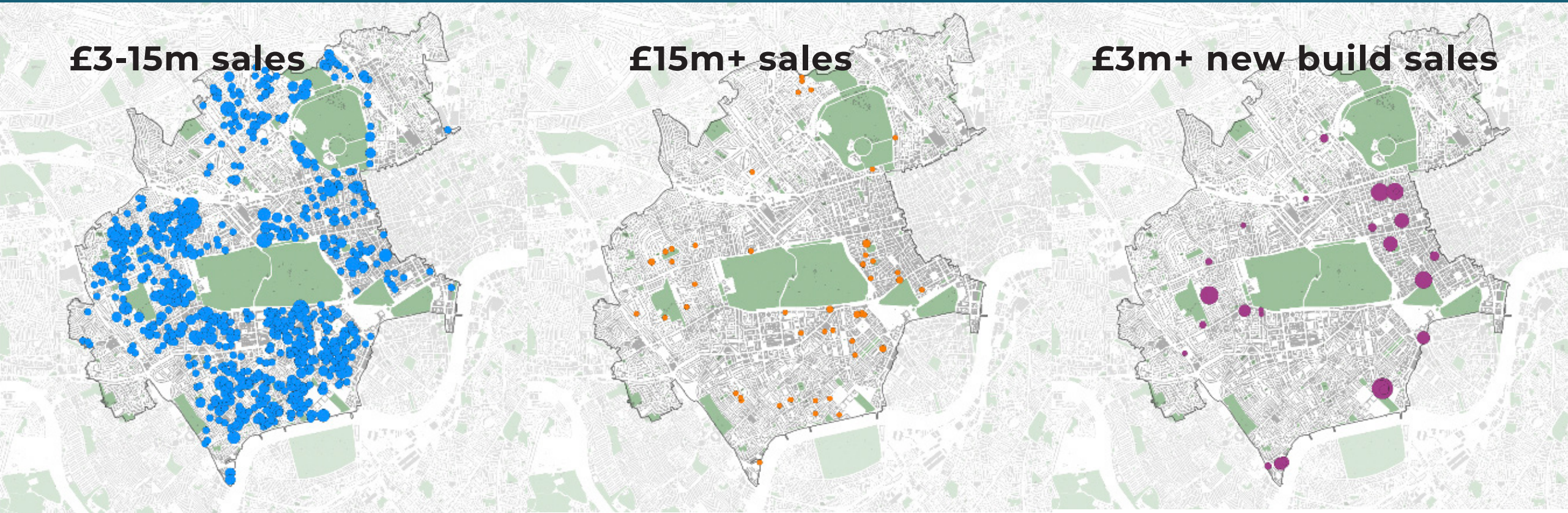
LOCAL ANALYSIS: PART TWO





Source: LonRes £3m+, 12 months to Q3 2020

ACTIVITY MAPS



Source: OS OpenData, HM Land Registry.

Notes: Size of dot = # of sales. All recorded sales July 2018 to June 2020. First two maps pre-owned only.

FORECAST SUMMARY

- As at the date of publication, a second lockdown took effect from 5th November and there was a Government announcement on 9th November of success towards the creation of a vaccine for Covid-19. The impact on current forecasts has yet to be seen but it is understood that the former is unlikely to prevent the sale of property to buyers who are based in the UK.

- The rapidly changing economic and policy landscape continues to make the process of forecasting house prices extremely challenging. The large variances between forecasters are therefore partly a function of when the figures were most recently updated.

- The first forecasters to update their figures in the early stages of the pandemic expected values to fall this year in all markets, as shown in our report last quarter. The surprising performance of the market over the summer has caused further revisions, especially for the short-term outlook at Greater London level.

- Savills released new mainstream and prime forecasts in September/October. PCL saw a slight revision up for 2020 but otherwise the same - relatively strong - performance over the five-year forecast period is expected. Their mainstream figures saw a huge shift: from -7.5% to +5.2% in 2020 and from +4.0% to +12.7% over the five years in London, with a similar change in expectations for UK prices.

- Knight Frank also reforecast (PCL only) in September, noting that the mainstream markets will perform better in the short-term but that there is more capacity for longer-term growth in prime markets.

- JLL's latest forecasts are from May, so do not reflect the improved sentiment over the summer. This is evident in the negative outlook at UK level, but their PCL forecast is in line with the other forecasters.

- Cluttons most recent published figures are from July and again are therefore more negative in 2020, but otherwise broadly in line with the positive outlook from 2021 to 2024 of the other agents.

FORECAST SUMMARY

	Agent	*Last updated*	2020	2021	2022	2023	2024	5 year
Prime Central London	Savills	Oct 2020	-0.5%	4.0%	7.0%	4.0%	2.0%	**17.5%**
	Knight Frank	Sep 2020	-3.0%	4.0%	6.0%	5.0%	4.0%	**16.8%**
	JLL	May 2020	-4.0%	4.0%	7.0%	4.0%	3.0%	**14.4%**
	Cluttons	July 2020	-5.2%	4.5%	5.0%	4.2%	4.0%	**12.7%**
Greater Central (mainstream)	Savills	Sep 2020	5.2%	0.0%	1.0%	4.0%	2.0%	**12.7%**
	Knight Frank	Dec 2019	0.0%	2.0%	3.0%	4.0%	3.0%	**12.5%**
	JLL	May 2020	-8.0%	3.0%	6.0%	5.0%	4.0%	**9.7%**

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

Window of opportunity?

A series of factors have combined to potentially offer a short-term boost to activity in PCL.

The imminent overseas SDLT surcharge is likely to bring forward some purchases before April. For buyers looking for a safe haven to preserve their wealth, London likely appears more stable than the 'competitor' global cities of New York and Hong Kong at the moment.

A shift in the relative merits of location versus space – outdoor space in particular – could also drive occupiers to make a move.

Covid-19

A second lockdown has been announced with effect from 5th November. The impact on current forecasts has yet to be seen but it is understood that this is unlikely to prevent the sale of property to buyers who are based in the UK. However, there will be a direct impact on international buyers. Many will be unable to view properties in person and there is little new off-plan supply.

Despite success towards the creation of a vaccine this year the virus does not appear to be going away, so when combined with another Brexit deadline, the economy looks set for an uncertain next few months (at least). This is never positive for the housing market, particularly in PCL with the discretionary nature of so many purchases.

Economic support

Debt is cheap and will remain so as the Government and Bank of England attempt to stabilise and then stimulate the economy.

Interest rates are expected to be very low for a significant period, and even a negative base rate has been floated as a way of further boosting growth.

These moves will be needed to counteract lender caution. Whether they are enough to help sustain activity and values remains to be seen.

Credit crunch

Lender caution is one specific result of uncertain economic conditions. Some banks have reduced or paused lending to new customers and/or increased security requirements and reduced LTVs.

While the withdrawal of many first-time buyer products by mainstream lenders is less of a problem in the £3m+ PCL markets, it is symptomatic of lenders losing confidence generally.

These changes are likely to contribute to subdued transaction levels and price growth.