

savills

Spotlight Chelsea & Earl's Court

2016/17

LOCAL IDENTITY WITH INTERNATIONAL APPEAL

These dynamic and sought-after markets offer much to buyers and tenants

MARKET OVERVIEW

A DYNAMIC COMBINATION

Mature yet emerging, Chelsea and Earl's Court are dynamic prime residential markets

Located at the centre of London, Chelsea and Earl's Court are sought-after residential markets where some of the capital's most prestigious addresses are located. Living here offers a lifestyle that is hard to replicate in other central London locations. Blending the mature and established Chelsea to the more emerging Earl's Court creates a dynamic combination that appeals to a young profile of buyers and tenants. The area's attractive housing stock includes desirable red-brick terraces, lateral apartments and quaint mews houses alongside many garden squares.

Young professionals and families have long been drawn to living in both Chelsea and Earl's Court. Good transport links to a number of key employment hubs, particularly the West End, and many high profile amenities add to the area's appeal. Chelsea is home to the King's Road, arguably London's most famous shopping street, and hosts the world famous Chelsea Flower Show. Earl's Court has many art galleries and restaurants and is appealingly situated close to High Street Kensington and Holland Park.

Both areas continue to evolve and have attracted investment for new housing developments and

infrastructure improvements, such as Crossrail 2. Earl's Court in particular is seeing the biggest changes with high profile developments further establishing the area as a prime destination.

PROPERTY PRICES

Chelsea and Earl's Court are attractive markets for those seeking a prime central London address offering relative value to surrounding areas. The average sale price in the 12 months to July 2016 for property in Chelsea was £1.77m and £1.03m in Earl's Court, according to Land Registry. The average sale price in Earl's Court is -46% below the borough average of £1.91m presenting an appealing buying opportunity.

Compared to neighbouring areas such as Belgravia where the average price per square foot for prime second hand property is £2,200, Chelsea and Earl's Court are less expensive at £1,750 and £1,400 respectively.

The prime London market has faced a number of headwinds over recent years which has resulted in prices falling across all prime areas and in particular for the most expensive properties. The stamp duty reforms introduced in late 2014 had a big impact



Chelsea and Earl's Court boast some of the capital's most prestigious addresses

on high value markets as the tax burden increased. Alongside this, the introduction of a new stamp duty surcharge for additional homes in April 2016 and the uncertainty surrounding Britain leaving the EU has led to a more subdued market.

The effect these factors have had on house price growth in prime Chelsea and Earl's Court is evident. Average prices have fallen -6.8% and -8.5% respectively over the year to September 2016 and both are now around -13% below where they were in September 2014, prior to the stamp duty changes introduced in the Autumn Statement.

RENTAL MARKET

The rental market is particularly high value in Chelsea and Earl's Court. The median monthly rent is £2,900 in Chelsea and £2,200 in Earl's Court according to Rightmove data. Rents range from an average of £1,700 per month for a one bedroom property to over £14,000 for a five bedroom property.

Although rental prices are high, both locations offer relative value for money when compared to neighbouring areas which has driven, and will continue to drive, demand amongst working professionals and families. Properties that are classified as 'immaculate' command a premium.

Prime renters in Chelsea and Earl's Court will on average pay 36% more for a perfectly presented property as opposed to one whose condition is classified as 'poor'.

There is currently a large amount of stock on the market in Chelsea and Earl's Court, according to Savills data. Year to date, stock levels are 33% higher than the same period last year which has resulted in prime rents falling -5.3% over the past 12 months.

DEMAND

In the prime markets of Chelsea and Earl's Court, international residents are an important source of demand. Between 2014 and 2016, 54% of buyers and 66% of renters have come from overseas, with those from Western Europe being the most prominent nationality in second hand property. The areas have an established community feel, with around half of buyers purchasing a main residence. Many families choose to settle here for the good schooling on offer. The numerous highly rated nurseries, primary schools and colleges, including the nearby Lycée Français Charles de Gaulle in South Kensington, are a major draw for both domestic and overseas buyers.

According to Savills data, around 75% of tenants renting in the area over the past two years were aged under 40, with the majority of these tenants choosing to rent for lifestyle reasons. This trend is not as evident in other prime central London locations as they often don't have the same dynamic mix of culture, connectivity and amenities that Chelsea and Earl's Court have. ■

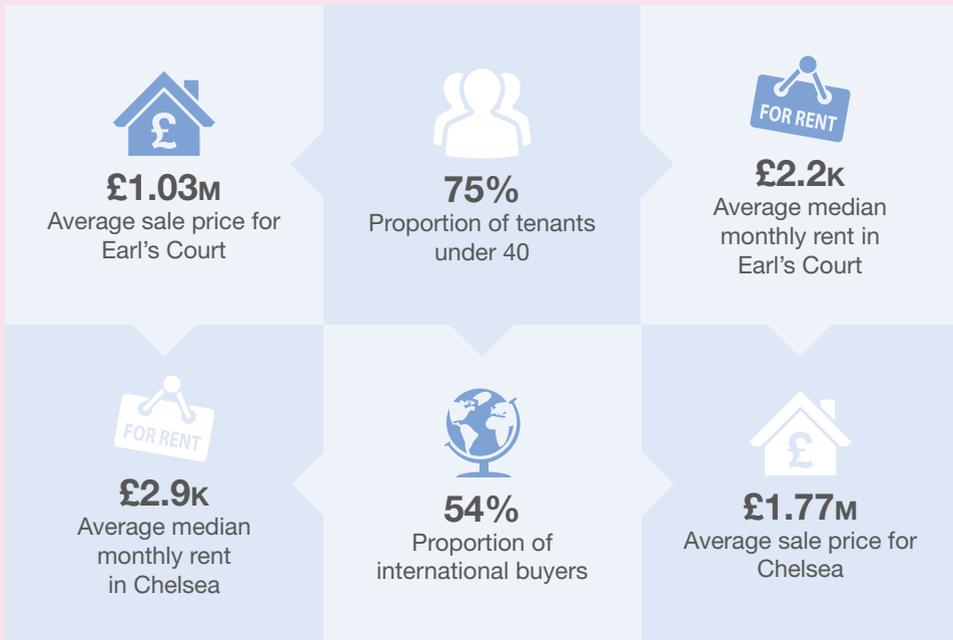
FIGURE 1

What would the same property sell/rent for on our featured roads?

2 BEDROOM, 2 BATHROOM FLAT, 1ST FLOOR, 700 SQ FT			
Location	Postcode	Sale Price	Rental Value*
Elm Park Gardens	SW3	£1.2m - £1.4m	£675 - £725
Earl's Court Square	SW5	£950k - £1.15m	£575 - £625
Onslow Gardens	SW7	£1.5m - £1.75m	£800 - £850
Cathcart Road	SW10	£1.25m - £1.6m	£650 - £700

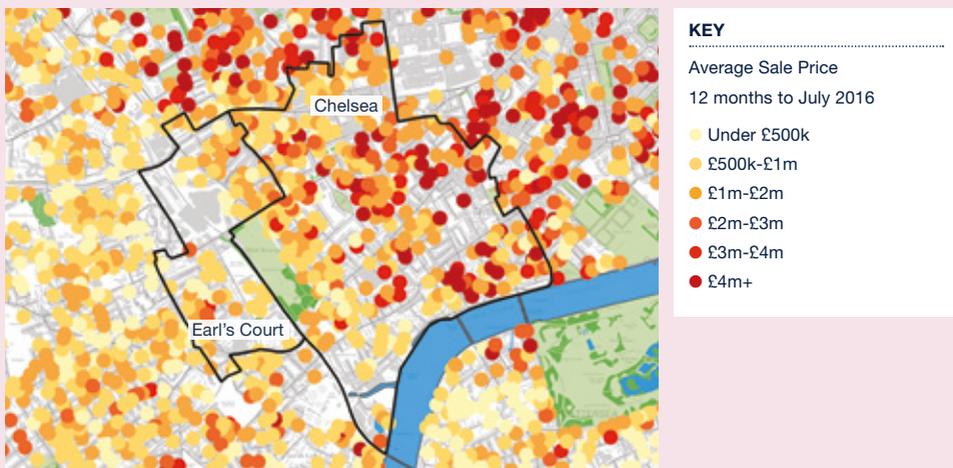
PERIOD HOUSE, 4 BEDROOMS, 2,500 SQ FT			
Location	Postcode	Sale Price	Rental Value*
Elm Park Road	SW3	£5.5m - £6.5m	£2,450 - £2,750
Redfield Lane	SW5	£2.35m - £3.25m	£1,550 - £1,850
Clareville Grove	SW7	£4.35m - £5.25m	£2,350 - £2,550
Lamont Road	SW10	£3.75m - £4.65m	£1,850 - £2,150

CHELSEA & EARL'S COURT: FACTS AND FIGURES



Source: Savills Research

FIGURE 2
Chelsea & Earl's Court sales market in 2016 A look at where sales happened and at what value



Source: Savills Research using Land Registry

DEVELOPMENT

NEW BUILD COMES INTO ITS OWN

With tighter planning regulations for those looking to improve their homes, high-quality new build developments will become more popular

For the established residential markets of Chelsea and Earl's Court, new build development is typically characterised by period façade refurbishments and small-scale, low-rise luxury schemes. These schemes have been popular with downsizers as well as those looking to upgrade, reflecting the fact that the Chelsea and Earl's Court area is largely an owner-occupier market.

Historically, new build supply has been relatively limited with only 700 private homes completing over the last five years. Nearly 90% of historic schemes were of 20 homes or less in size.

However, over recent years a number of developments of over 100 units in size have started to emerge. There are 19 schemes currently under construction in Chelsea and Earl's Court, set to deliver c.1,600 private homes. Of these schemes, three are over 200 private homes in size.

Lillie Square by Capital and Counties and KFI is a 608 private home scheme on Seagrave Road which forms part of the 77-acre Masterplan for the redevelopment of Earl's Court. Overlooking the river Thames is the redevelopment of the historic Lots Road power station. Chelsea Waterfront, the 424 private home scheme, sits across the Kensington and Chelsea and Hammersmith and Fulham boundary. The scheme is being developed by the Hong Kong based Cheung Kong Property Group and Phase 1 is due to complete at the end of 2017. On the very western edge of Chelsea, bordering Belgravia, is Chelsea Barracks, a 326 private home luxury development by Qatari Diar.

Key future developments in the pipeline include the long-awaited development of the John Lewis Clearings site on Draycott Avenue and the former Chelsea police station on Lucan Place.

Looking forward, new build developments will likely become ever more sought after in Chelsea and Earl's Court due to the tightening of planning regulations for those looking to improve their homes.

Most recently for example, the Royal Borough of Kensington and Chelsea has tightened planning regulations on the building of 'mega-basements' and on applications to combine homes, meaning there is constant demand for large lateral living space in this part of prime London.

New build sales at the very top end of the market are already taking an increasing market share of transactions as more and more buyers increasingly choose quality and the additional amenity provision that schemes offer. ■



The first phase of Chelsea Waterfront is due to complete at the end of 2017

OUTLOOK

TAKING A LONG-TERM VIEW

The effects of Brexit on the market may take time to settle as the UK Government negotiates its exit from the EU

The outlook for Chelsea and Earl's Court needs to be measured in the context of the broader prime London market.

SALES MARKET

As we move forward, the prime London markets will continue to be shaped by pre-existing constraints. Prior to the EU referendum prices across prime London had adjusted to a higher tax environment, though the market had become restricted to the most committed buyers and sellers.

However, since the referendum result in June, the fall in the value of the pound has presented an opportunity to overseas buyers who are particularly prevalent in Chelsea and Earl's Court.

Over the final quarter of 2016 we expect further sentiment-driven price adjustments, though the market will be underpinned by low interest rates and the value of sterling. Looking to 2017 and 2018 we anticipate broadly flat prices as the UK Government negotiates its exit from the EU.

On the basis that London retains its position as a world city and global financial centre we expect

the market will rebound from 2019, though to what extent is likely to be tempered by the underlying tax environment.

Whilst this presents investment opportunities for those prepared to take a long-term view, sellers will need to be realistic and flexible in terms of their price and aspirations over this period.

RENTAL MARKET

Looking forward, over the short term the impact of Brexit is likely to mean buyers remain cautious. This is expected to push demand into the rental market, given the impact of higher stamp duty and concerns over job security in the financial and business services on people's willingness to commit to a purchase.

On the supply side, this is likely to be offset by more stock coming to the market in Earl's Court and Chelsea than we have seen historically due to higher levels of development and increased interest from overseas investors driven by the currency advantage. Landlords will need to remain competitive on asking rents and flexible on terms in order to attract tenants in the long term. ■

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