REPORT

IN FOCUS:

PRIME CENTRAL LONDON

UK RESIDENTIAL – AUTUMN 2021

savills

Resilient and ready to make a recovery

It won't come as a surprise that the past 18 months have been somewhat quieter in London's most exclusive postcodes. But as streets start to bustle once more, and confidence in the vaccine programme grows greater, London's luxury property market also breathes signs of life again.

So, how is the residential property market here performing? Prime central London has recorded its strongest half year in both volume and value terms since the rush to beat the introduction of the new stamp duty rates seven years ago. Although encouraging, this activity is yet to translate into meaningful price growth with prices rising by only 0.2% on average.

The ongoing delay in the much-anticipated price recovery reflects the continued restrictions on international travel, and has affected Belgravia, Knightsbridge and Mayfair most strongly. The likes of Notting Hill, Bayswater and Holland Park have captured the greatest levels of demand, given their appeal to those long-term residents in the UK who are looking for a family home.

London remains one of the world's truly international cities, and has always enjoyed welcoming international buyers through its doors. From its restaurant and retail scene, to its rich history and culture, these qualities make central London one of the few places globally that international buyers understand, and feel secure to invest in.

As the world begins to open, so too will prime central London. We explore the resilience of the capital's prime property markets through detailed research and our own agents' voices. If you're thinking of buying, selling, letting, renting or investing we'd love to talk to you.

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Prime insight and intelligence

Primed to perform

High levels of transactional activity, a leap in the number of global ultra-high net worth individuals and the point at which prices sit in a historical context all point to a price recovery in London's most exclusive residential neighbourhoods. The question is: when?

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In the second quarter of 2020 – as the first wave of the pandemic hit the UK – 300 new Aston Martins, Bentleys and Rolls-Royces were registered for the first time in the UK. They were joined by 353 new Ferraris, Lamborghinis, Maseratis and McLarens.

However, during the same period a year earlier, 2,044 such supercars – more than three times as many – had been registered. Proof, if proof was needed, of a Covid-led disruption to the spending patterns of the world's ultra-high net worth individuals (UHNWIs), a community so important to the prime central London (PCL) property markets.

Initially, transaction levels in the PCL residential market followed a similar path, though a 50% fall in sales volumes, however dramatic, was less than the one experienced in the luxury car showrooms.

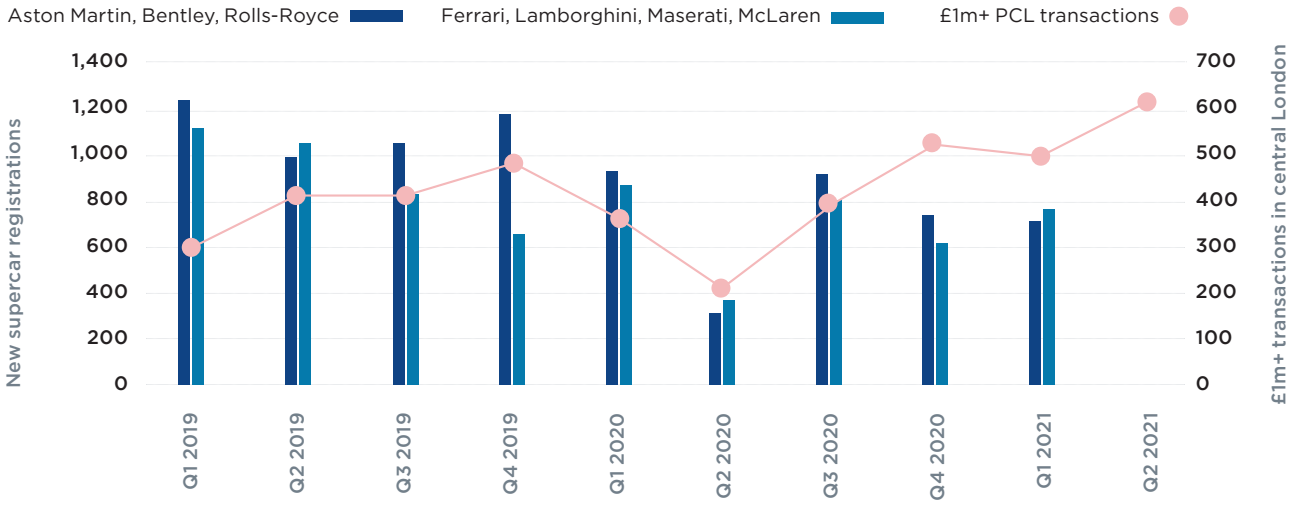
A remarkable turn of speed

With the impact of the pandemic far more prolonged than initially expected, the turnaround in activity in both markets has been remarkable. By the end of the first quarter of 2021, new car registrations across these seven uber-luxury brands had returned to 1,487.

Not too shabby given the continued constraints on international travel that will have undoubtedly limited the footfall in the showrooms of the supercar retailers of Berkeley Square (not to mention the effect on automotive supply chains).

In the PCL housing markets, the recovery in activity has been even greater. This is despite being increasingly dependent on demand from domestic buyers and ▶

New registrations of supercar brands v property transactions



Source Savills Research, LonRes, DVLA

resident non-doms more regularly buying a home for use as their main residence.

Exacerbated by a surge in transactions in the second quarter of this year, buying activity in the past year has been 28% above levels seen pre-pandemic, according to data from LonRes. Our own data reveals that some £4.4 billion was deployed in the rarefied market above £5 million – more than £700 million above the average spent from 2017 to 2019.

Without the super-chargers

While activity levels have rebounded strongly, this has not yet translated into sustained price growth. Though annual price growth returned to the PCL market in June, at just 0.5% it was hardly at the level to set pulses racing. That means prices remain on average 20.3% below their 2014 peak in nominal terms and 28.1% on an inflation-adjusted basis. As we have been saying for more than three years, the market looks good value on a historical basis, even if a little of the currency play has been lost recently through an appreciation of sterling.

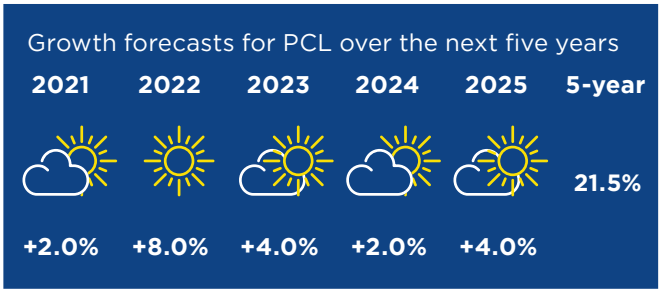
Drivers of demand

The value on offer sits against the context of a strong rise in those considered to be UHNWIs across the globe, namely those with wealth exceeding US$50 million. Despite the social and economic turmoil of 2020, their numbers increased by more than 40,000, or 24%, in the past year, according to Credit Suisse. That, fuelled by strong growth in the technology and life sciences sectors, represents the biggest percentage increase since 2003. The UK is home to the fourth highest number of UHNWIs, behind the USA, China and Germany (although India is catching up fast).

Primed for a price recovery

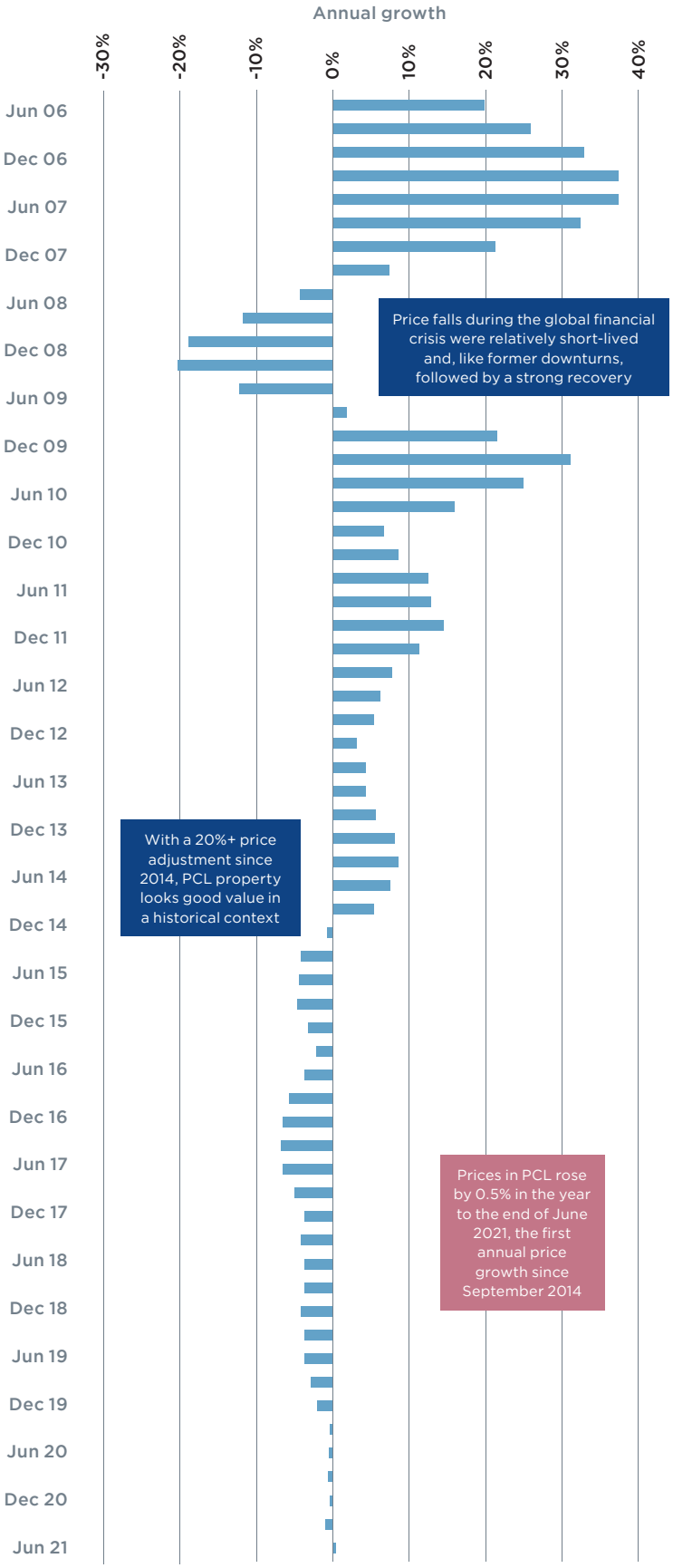
This suggests values in PCL remain poised for recovery, as and when international travel restrictions ease. Timing remains the most difficult thing to predict, with much depending on the progress of Covid vaccination programmes outside of the UK and the experience of transmission rates as social-distancing measures are relaxed in response to the UK's own vaccination programme.

As things stand, we are forecasting values across PCL to increase by an average of 2.0% during 2021 before a more significant recovery next year, with forecast growth of 8.0%.



Note These forecasts apply to average prices in the second-hand market. New build values may not move at the same rate.
Source Savills Research

PCL headline price movements



Source Savills prime London index, Q2 2021

Piecing together the central London jigsaw

Average price movements only give part of the picture of what is going on in the PCL property market. Our index suggests that across the best-performing 10% of the PCL market, prices are only 1.0% below their 2014 peak. However, in the worst-performing 10%, prices are close to 37% below that benchmark.

Much of that variation in performance comes down to the specific attributes of individual properties, meaning it is hard to generalise about the top and bottom performers over that period. However, larger family homes in slightly more domestic areas of central London, such as Holland Park and Notting Hill, have held or recovered their value more readily than other properties.

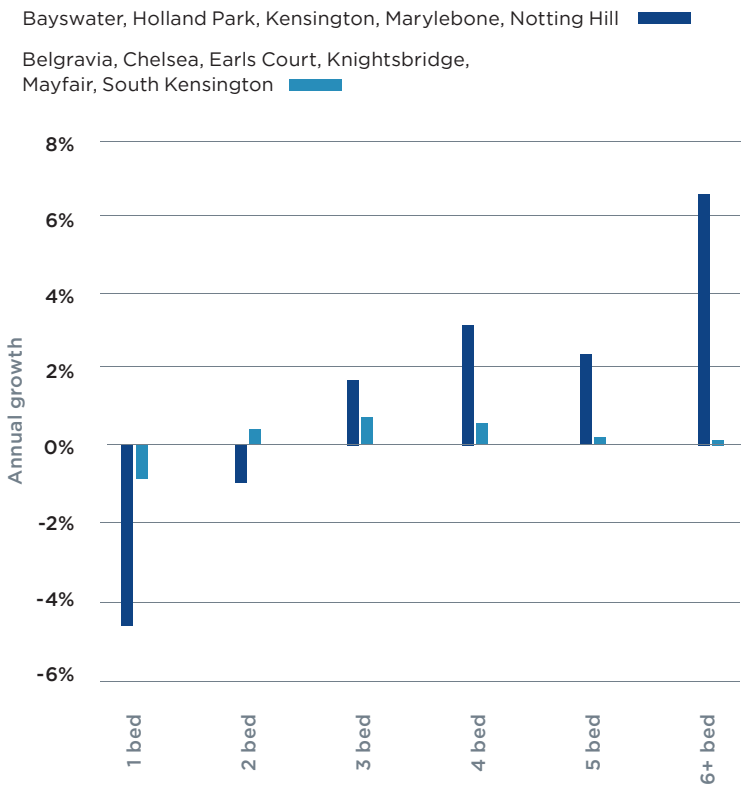
That reflects a market more driven by those looking to buy a family home as their main residence and a requirement for more space, both inside and outside the home, given the recent experience of the pandemic. So while prices are on average 0.7% below where they were prior to the first lockdown, those with a medium or large garden have risen in value by 1.8%, while homes of five bedrooms or more in Notting Hill, Holland Park, Bayswater and Kensington have increased in value by 4.0% over the same period.

But as office-based workers return to their desks and international buyers are able to visit the capital more easily again, we expect a rebalancing of demand across different property types.

4.0%
RISE IN VALUE OF HOMES WITH 5+ BEDROOMS IN MORE DOMESTIC AREAS OF CENTRAL LONDON

1.8%
RISE IN VALUE OF PROPERTIES WITH A MEDIUM OR LARGE GARDEN

Annual price movements by number of bedrooms



Source Savills prime London index, Q2 2021

The lure of the country house

Central London may be poised for recovery, but the country house market remains in high demand

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Since mid-2020, the standout performers of the prime residential housing markets have been ultimate lifestyle and second home locations. These include properties in the £2 million+ country house market. After many years of underperforming the wider prime regional markets, this rarefied sector saw annual growth of 12.9%, its strongest performance since 2007.

Despite this recent surge in growth, values still remain on average 11.3% lower than their previous 2007 peak, suggesting there is still room for further growth. After the credit crunch, most people wanted to be in the thick of city life, so country houses went slightly out of fashion. The numerous stamp duty increases also hit these higher value, discretionary markets harder.

The general election result in late 2019 improved confidence across the country house market and there was already increased interest before the pandemic hit. The various Covid-19 lockdowns then caused many to move out of towns and cities into the countryside, and this compounded demand levels. Some were buying second homes whilst others decided to swap how they use their city and country bases.

Scotland (where a 33.5% price gap compared with 2007 acts as an additional driver), the Cotswolds and the South West of England were the strongest performing submarkets. The Cotswolds in particular has seen an increase in demand from London buyers who have been attracted to areas around Stow-on-the-Wold, Chipping Norton and Burford.

The private estates of the Home Counties have also seen a resurgence. Of these, St George's Hill and Wentworth remain the most exclusive and highly valued. Here, annual growth is sitting at 11.4%, following a flurry of activity driven by domestic buyers. There were 13 transactions on the estate of St George's Hill during the first six months of 2021, the highest number recorded in the first half of any year since 2013, before the stamp duty changes.

Looking ahead, we expect there to be more focus on town and city markets now that social distancing measures have been relaxed. However, there remains a core of unmet demand from people looking to upsize or relocate, particularly with the lack of available properties across the country house market.

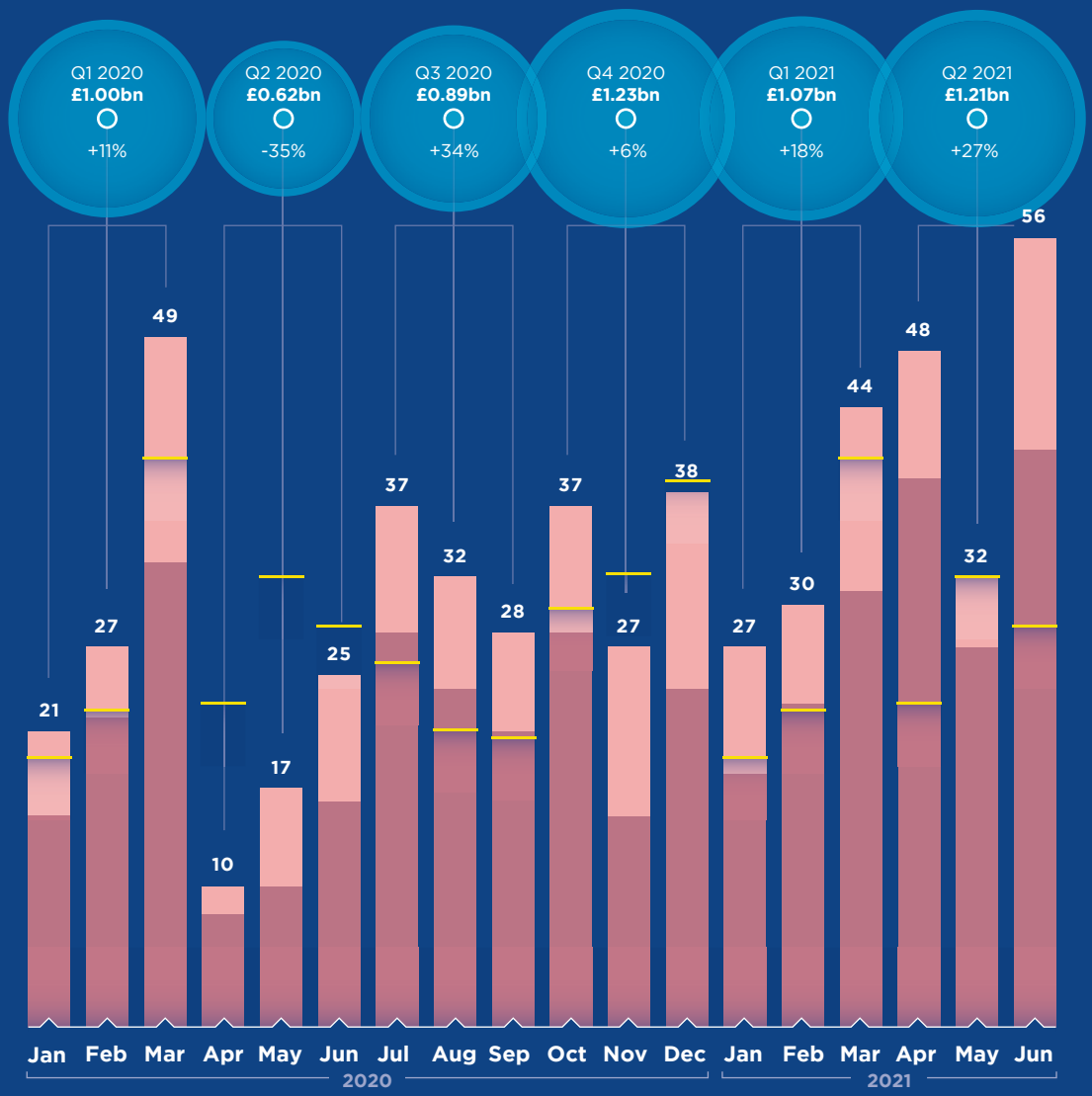
The lifting of restrictions and rollout of the vaccine means more stock is likely to come to the market. When this happens, a readjustment in buyer and seller expectations will be crucial to maintain current momentum. The value on offer across the country house markets will also act as an additional driver of demand.

The data behind the demand

We examine the factors and behaviours that are influencing prices and demand in the prime central London residential market

Activity and spend above £5 million

There has been strong activity in the market above £5 million in the second quarter of the year. This is despite the dependency on domestic buyers and resident non-doms more regularly buying a home for use as their main residence.

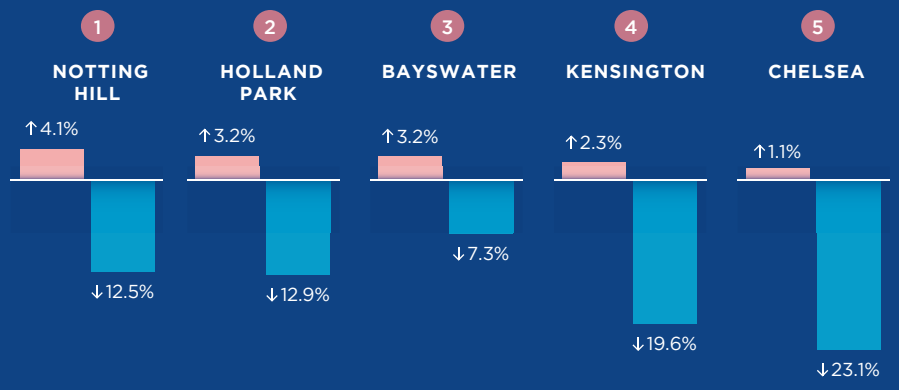


Source Savills Research

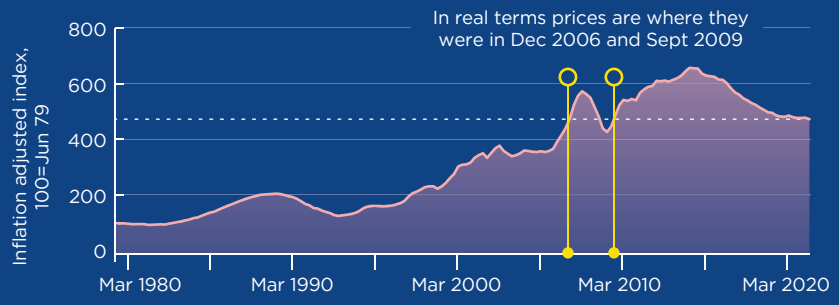
Prime central London by district

Which areas of London are showing the fastest recovery? Our analysis shows prime property price growth on an annual basis and since the 2014 peak.

Annual Since 2014 peak



Source Savills prime London index, Q2 2021



Long-run prices

Prices are 29% below their 2014 peak on an inflation adjusted basis. Despite a recent strengthening in sterling, prices were still 34% below their peak in US$ terms at the end of June.

Source Savills Research

Wealthy drivers of demand

The value on offer in prime central London sits against the context of a strong rise in ultra-high net worth individuals (UHNWIs) across the globe, namely those with wealth exceeding US$50 million.

+24%

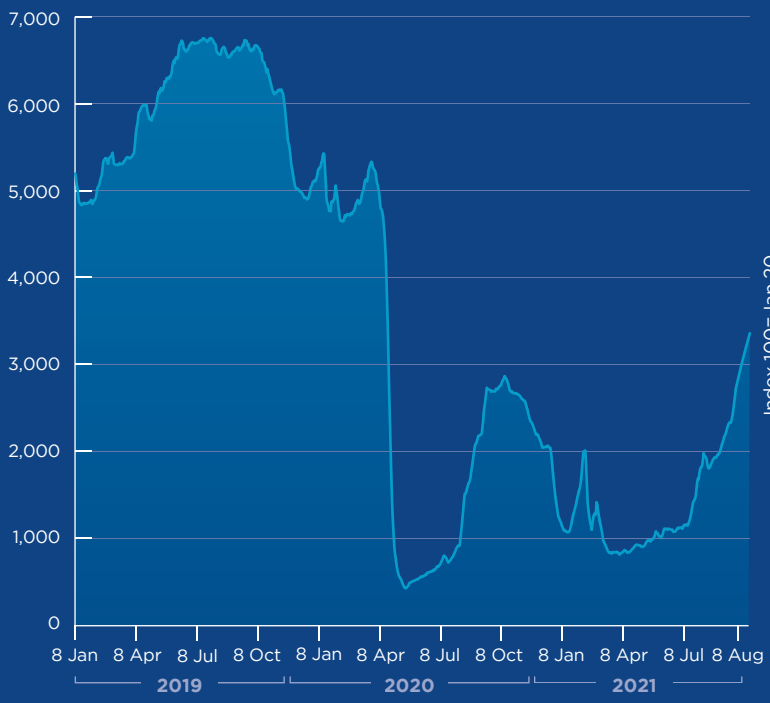
Increase in UHNWIs
At the end of 2020, there were 215,030 UHNWIs globally, an increase of 24% (41,420) in the year.

4th

UHNWIs location
The UK is home to the fourth highest number of UHNWIs, behind the USA, China and Germany.

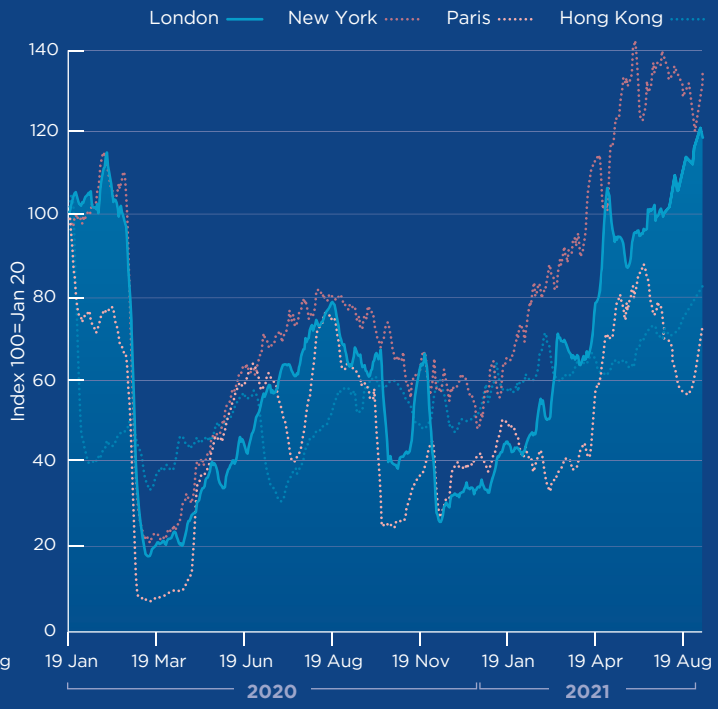
Flight numbers and pedestrian activity continue to rebound

7 – DAY ROLLING AVERAGE UK FLIGHT NUMBERS



Source Eurocontrol (taken from weekly government social and economic indicators published by ONS)

PEDESTRIAN ACTIVITY V NEW YORK, PARIS AND HONG KONG



Source Savills Research with Apple mobility data

Prime central London by district

Which areas of London are showing the fastest recovery? Our analysis shows prime property price growth on an annual basis and since the 2014 peak.

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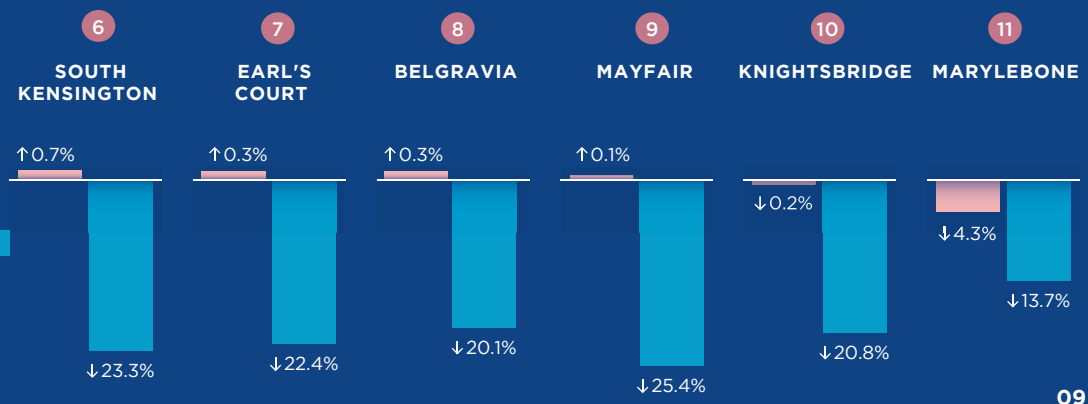
Source Savills prime London index, Q2 2021



London in the limelight

With 15 offices across central London, we have unrivalled intelligence on how the residential market is evolving. Here, our agents discuss some of the areas and property styles that buyers are prioritising in their property searches

HOLLAND PARK & KENSINGTON

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The demand for more living space in a green, leafy neighbourhood has been the driving force for many buyers in recent months. Holland Park and Kensington offer large houses that meet these requirements, particularly in neighbourhoods such as the Phillimore Estate in W8, and Addison Crescent and Holland Park in W11.

Holland Park and Kensington are quintessentially British, thanks to the styles of architecture and garden squares. Buyers may have tech or private equity businesses that have done well recently, but that doesn't mean they are pining for locations with a flamboyant vibe; they prefer something more understated, such as Campden Hill Square.

We are also seeing new trends. First, people do not want the cost, or the delay, of a large refurbishment project. We're also noticing a desire to return to London to retire. The market for apartments has been slow, but there is a tentative recovery in the demand for traditional mansion flats. These are from buyers seeking a pied-à-terre, or from people who long to be back in town, near the museums, theatres, restaurants and shops.

NOTTING HILL

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When people move to Notting Hill, they never want to leave. I've met families who have lived here 30-40 years. They love the garden squares, highly regarded schools, and community spirit. While renowned for its polished facades and well-heeled residents, Notting Hill's eclectic and vibrant roots are still apparent in the form of antiques shops, independent cafes and market stalls.

While the pandemic was a catalyst for families to relocate to the Home Counties, this has had little impact on this market. Hyde Park and Holland Park offer inner city sanctuaries. Fortunate residents have always balanced having homes in the city and countryside. The end of lockdown saw many return, keen to get their Granger and Co brunches and Bodyism workouts back in the diary.

The past year has been testament to Notting Hill's desirability – market levels have been some of the best for years. The main impact has been on buyer preferences. The once overlooked lower ground floor apartments have become some of the most sought-after, with outside space now being a prerequisite for many. The shift to lateral low-rise houses with generous gardens has also seen W10 soar in popularity. Its tree-lined streets are still in the borough of Kensington and Chelsea, transport links are good and you can walk to the shops and cafes of Westbourne Grove.

MAYFAIR

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Mayfair has been logistically challenged because international buyers have traditionally accounted for 75% of sales. But domestic clients have been keen on branded residences, such as 1 Grosvenor Square and Twenty Grosvenor Square. The facilities, such as swimming pools, cinemas and housekeeping, provide a high level of self-sufficiency. Out and about in Mayfair, there's a real sense that London is opening up. I've seen an impressive number of Bugattis.

A pretty neighbourhood close to Marble Arch, Connaught Village is one of the last undeveloped areas on the doorstep of Hyde Park. With its mix of Victorian and Georgian architecture, garden squares, independent boutiques and restaurants, it is utterly charming and quintessentially British. It is handy for Paddington and stands to benefit from the regeneration of neighbouring Queensway, including The Whiteley with its residential, retail and Six Senses hotel scheme.

Marylebone is a short distance away. Here, the likes of Seymour Place and New Quebec Street, that make up Portman Village, are of particular interest. Over the past year, prices have fallen more steeply in Marylebone than in other parts of prime central London, so it is a good time to buy.

St James's is another district where, if you can find something to buy, you should grab it. But you will not find it easy. People hold onto homes in this part of town, as they have invested in a slice of history. Meanwhile, for the next five years, there will not be a single new build available which adds to the scarcity of opportunities to buy.

CHELSEA

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In Chelsea, we're seeing a new, younger set of buyers who had considered moving out of London with their families but have decided to stay, drawn by the area's character and community. Whether it's your neighbour or local barista, you can forge relationships and find people from all walks of life in Chelsea.

While some buyers remain highly motivated and attracted to the traditional destination addresses, such as Markham Square and Wellington Square, many are now more willing to focus on benefits of lifestyle and amenity. So, there is a notably increased appreciation of houses, for example in Drayton Gardens and Redcliffe Road in west Chelsea (SW10) where the private gardens may be much larger, and parking included or more accessible.

Another factor influencing buyers' decisions is the desire to walk or cycle instead of taking public transport. Traffic is another interesting issue. Will a street where traffic noise and pollution is a concern be more agreeable when more vehicles are electric and thus quieter and cleaner? Most commonly a smaller property in a better location may have been preferred to a larger property on a busy road, but there is very much an increasing interest in those properties that might have been considered as compromised; buyers are conscious that the significance of those issues may reduce and be much less of a concern within a relatively short period of time.

There is a lot of excitement around Drayton Gardens and Redcliffe Road in west Chelsea

BAYSWATER

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As part of the broader reassessment of where people want to live, I think one area of prime central London is about to come into its own. Bayswater has long been considered the less glamorous relation and tends to demand lower prices as a result. Yet it ticks so many boxes. It's perfectly positioned, with Notting Hill to the west, Mayfair and Marylebone to the east and Hyde Park on your doorstep. Transport is also great, with the Heathrow Express at Paddington and Crossrail opening soon at nearby Old Oak Common.

The regeneration of Bayswater Road and Queensway is extraordinary. Whiteleys, the Grade II-listed former department store on Queensway, is being transformed in a Foster + Partners scheme with shops, a Six Senses hotel and luxury residences developed by Finchatton. There is also the Park Modern apartment scheme on the Bayswater Road with its incredible south-facing views over Hyde Park. Bayswater has everything – and it's only going to get better.

BELGRAVIA

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The world has changed and so have people's priorities. They want to sit outside a cafe in their neighbourhood, be served by someone they know, wave to a friend who's passing by. Belgravia is perfect for this kind of socialising. Elizabeth Street, for example, which runs from Ebury Street to Eaton Square has become a high-end destination with independent boutiques, cafes and restaurants.

In recent months, people have also had time to think about what they want from their property. Demand for houses has been stronger, but we are now seeing more motivated buyers for flats. However, the requirements of these buyers are more specific than before. They want the comfort and amenity of garden flats with their own front door. For flats on upper floors, they must have a decent terrace.

But buyers are also more interested in seeing the flat in the context of the wider neighbourhood. So, when I take prospective buyers on a viewing, I also take them on a little tour of the whole area. As the Grosvenor Estate has highlighted, the various parts of Belgravia – Belgrave Square, Chester Square, Eaton Square – are a series of different mixed-use urban villages, each with its own individual character and sense of community.

Belgravia is perfect for socialising. Elizabeth Street, for example, which runs from Ebury Street to Eaton Square has become a high-end destination with independent boutiques, cafes and restaurants

KNIGHTSBRIDGE

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There has been a recalibration in what is important in people's lives. We are having more down-to-earth discussions with buyers, in which the needs of their families come first.

Gardens, outside space or access to greenery matter much more than they used to. People who once took their garden squares for granted are now using them regularly. People are supporting their local community more too. They are more likely to eat out locally, and want their day-to-day activities to be a short stroll away.

Fortunately, Belgravia, Chelsea and Knightsbridge have a wealth of cosmopolitan streets with independent shops, cafes and restaurants. Top of the list are Elizabeth Street, off Eaton Square; Motcomb Street, which leads off Wilton Terrace; and Pimlico Green, south of Sloane Square.

I love the artisan food shops, boutiques and outdoor cafes of Pavilion Road. The Cadogan Estates pulled off a miracle with the regeneration of the street: they turned it into a destination, refurbishing rundown 18th-century mews houses. Some of the luxury brands that have shops in the Sloane Street area have also evolved and adapted.

PRIME LETTINGS

"If you are serious about renting your home, this is an excellent time"

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There has never been so much emphasis on green space, and the current dream rental home is a four-bedroom house with a garden.

But there has also been a shift in tenants' requirements for a home's interior layout, a new set of preferences driven by home working and a desire for more privacy during the day and in the evening. Families want a hang-out area for the children, and nooks and crannies where several people can sit and talk in peace.

There has long been a requirement for home offices in this segment. As a result, in some houses, the second landing on the staircase has been turned into an office area with a desk. But someone who is frequently on conference calls needs a room with a door. At the very top end of the market, some people want pools and home gyms.

The hotspots in London's rental market are Kensington and Notting Hill. Owners can secure fantastic rents because there are so few properties available. Recently, we had three tenants bidding for a property, a beautiful townhouse being let out by a family who were moving to the country.

This was not a permanent relocation, so the owners wanted to rent their home to a family who lived in a similar way to them. They wanted a custodian because the home may be a legacy property – bought for future generations – so must be well looked after. In such circumstances, I find it useful if the owner's housekeeper and the tenant's housekeeper can meet before the move and discuss matters such as how the house should be cleaned, so that marble floors and other surfaces are not damaged.

Despite the focus on houses and gardens, the flat market in Mayfair and Marylebone is making a return. Lock-up-and-leave flats with a concierge or live-in porter are sought-after. If tenants are regularly flying into London for the weekend, they want to be welcomed by someone who knows they are arriving.

The prime central London rental market used to be seasonal, but that pattern is altering, with the emergence of a new type of clientele coming from the burgeoning tech industry in London.

If you are serious about renting your home, this is an excellent time. Constrained stock puts landlords in a strong position, but you have got to get a move on.

RESIDENTIAL DEVELOPMENT SALES

"A great view is important – and can be a trigger to buy early into a development"

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While the absence of overseas buyers has held back the recovery in prime London's residential development market, activity is increasing. Buyers are returning to London's golden postcodes from the Middle East and the United States, and there's a real sense of pent-up demand.

Indeed, we could be at the point where if buyers delay, they could miss out. There has been an uptick in property values – which had been declining for the past six years – and, as experience shows, fans of London property love a good buy.

In terms of demand, having a great view is important – and can be a trigger to buy early into a development. This is exemplified by the popularity of Park Modern with its outlook over Hyde Park and Kensington Gardens. The scheme is expected to complete in 2022.

There is also plenty of traction for three-bedroom apartments. Like everyone else, these buyers want more indoor and outdoor space – and to be close to a park.

While we have certainly had off-plan sales where buyers have not viewed the site in person, this tends to be for property in the market up to £1 million. In the case of a £5 million-plus home, buyers want to look before they strike a deal.

We are also noting that more attention is being paid to the level of service charges at developments. I would argue that developers need to look at the services they are charging for, including the level of staff employed at a building.

Above all though, London remains hugely attractive. The capital has everything: transparency in financial and legal dealings, architecture, education, culture and restaurants. It's evolving too. For example, the decision to allow bars and restaurants to set up outdoor tables as lockdown restrictions ended gave the city a new and exciting vibe.

GLOBAL PERFORMANCE

Prime London in a global setting

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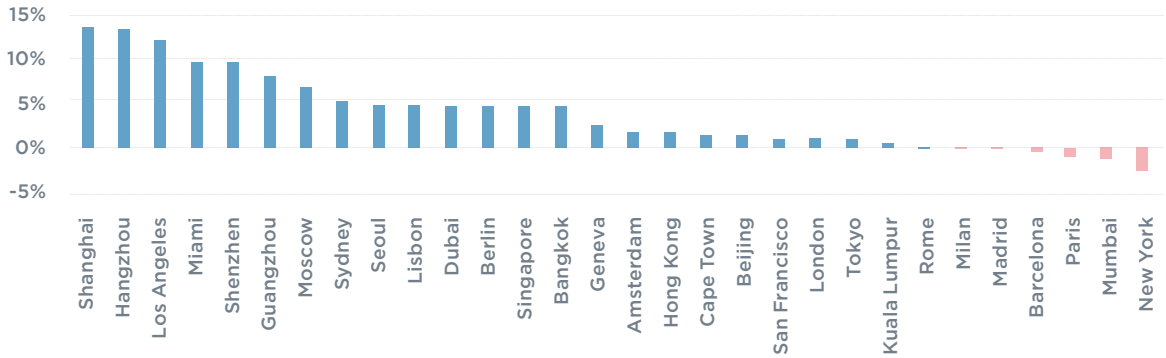
London is not the only city to see positive price growth for prime residential property in 2021. Savills *World Cities Prime Residential Index*, which measures the performance of 30 cities across the world, saw more than three-quarters of these cities record price growth during the first six months of 2021 compared with just over half in 2020 and 2019. This increase was driven by record low interest rates, economic stimulus measures and improved buyer confidence on the back of restored wealth generation.

However, the growth in London was more modest than many other locations. The highest capital value growth was in Chinese cities – driven by a combination of continued wealth creation and increased lending – and Los Angeles and Miami in the US, which offer an abundance of space, hospitable climates and have strong footholds in growth sectors of the global economy.

London remains one of the most desirable locations in the world, although the headwinds it has faced over the past seven years means it is now ranked as the sixth most expensive city in our list (see page 18).

Six-month capital value change to June 2021



Source Savills Research

Hong Kong still leads the pack, with prices nearly twice as expensive as second place New York, where prices have softened during the pandemic as buyer focus has shifted to less urban locations. Tokyo and Shanghai take third and fourth position while Geneva sits just above London as the most expensive in Europe.

From a buyer perspective, it is not just the price of the property to consider but also the associated costs to buy, hold and sell the property. On this basis, London ranks middle of the table (see page 18).

Global prime rental values

Meanwhile, prime rents around the world have not seen the same recovery as capital values, given less immediate need for the world's wealthy to be in urban centres. Over H1 2021, only 39% of cities in the Savills *World Cities Prime Residential Index* reported positive growth as global restrictions on travel also reduced demand. London was one of those cities, reflecting a bottoming out of rents in a market where high levels of supply have taken time to be absorbed into the market as the buzz of city life has begun to return.

That means that across all 30 cities, the average income yield for prime residential property now stands at 2.9%, ranging from 4.8% in Moscow to 1.3% in Shanghai. London sits near the average at 2.8%.

VIEW FROM THE PRIVATE OFFICE

International interest

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In recent months, a log-jam of would-be buyers in prime central London (PCL) has been building up. It is about to be released.

Buyers from the Middle East have been longing to come here for more than a year. But, recently, there has also been an upsurge in interest from American buyers – some from the hedge fund and private equity industries – who are itching to start househunting in London.

There are people with £30 million or more to spend on homes in PCL. This has revived memories of the series of property deals made in 2018 and 2019 by Ken Griffin, CEO of hedge fund Citadel. His purchases included a 16,000 sq ft house in Carlton Gardens in St James's.

For Americans, London's history is a huge draw. However, another spur is the Biden administration's budget framework, unveiled in the spring. Under these wide-ranging proposals, the wealthy would face higher capital gains, income and inheritance taxes, plus other reforms to current laws. These plans are encouraging some affluent Americans to contemplate spending time outside the USA.

US buyers favour a cross-section of properties, including modern schemes with amenities, such as Twenty Grosvenor Square in Mayfair and The Glebe in Chelsea, a collection of nine homes with private gardens in a former Victorian school.

But the dream home is still a white-stucco heritage house in St James's. They like the area's aristocratic origins and its parks. St James's has Piccadilly to the north, Haymarket to the east, Green Park to the west and St James's Park to the south.

For the American clientele, the ideal address here would be St James's Square which was laid out in the 1660s to provide accommodation for the nobility who wanted a place convenient for Charles II's palace at Whitehall.

About 70% of the buildings are either clubs or offices, although some of the houses are being converted back for residential use. But the pace can be slow – it took one developer four years to complete the process. As a result, there is a shortage of palatial mansions, not only in St James's Square, but in St James's as a whole.

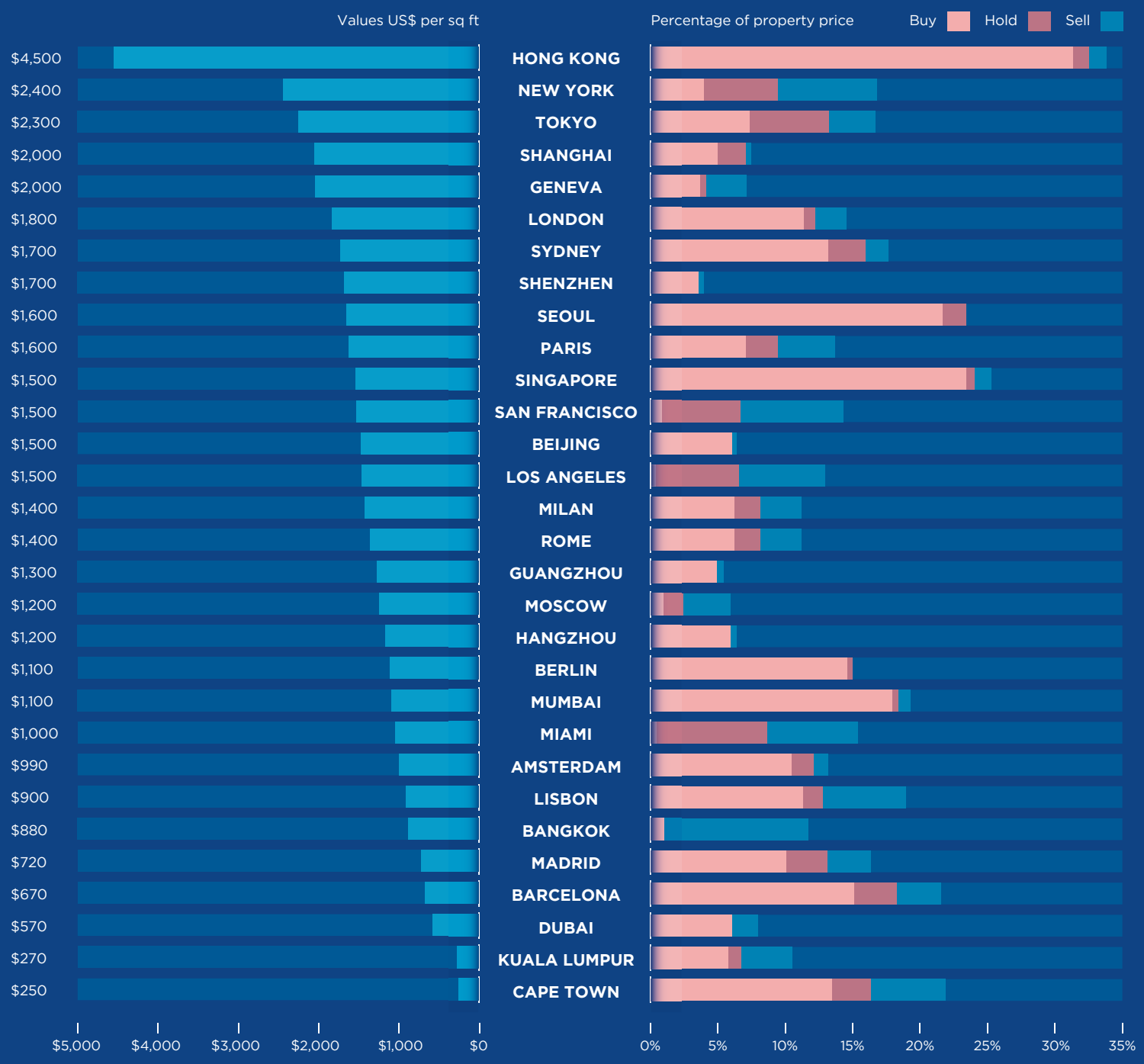
The new focus on St James's has been accompanied by a willingness to look at places that haven't, until recently, been considered part of PCL, such as Bayswater. There is no rigid hierarchy – another reason why London is a place where people want to invest and to live.

Capital values

With large and dynamic cities tending to remain popular with the global wealthy over long periods of time, we compare London's prime residential values per square foot with some of the world's richest cities.

Buying, holding and selling a $2 million property

A key consideration of investing in residential global markets is not just the price of the property you're buying, but the associated costs of buying, holding and then selling that property. We compare London to other prime markets around the world.



Note Our scenario assumes a non-resident overseas buyer purchasing a $2 million property (which in the UK equates to £1.5 million). This is for use as a second home for less than nine months of the year over a five-year hold. No capital growth has been applied, avoiding the complication of having to forecast that for each city. London purchase costs reflect stamp duty changes from 1 October 2021. **Source** Savills Research

For over 160 years, we've advised on best-in-class property in London's most desired postcodes. Across 15 central offices, we guide our clients to make the right property decisions, whether they're investing in a luxury pied-à-terre in Mayfair or searching for an elegant family home in Holland Park.

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