REPORT

Savills Research

IN FOCUS:

PRIME CENTRAL LONDON

UK RESIDENTIAL – WINTER 2020

savills

The prime central London market remains resilient and is poised for recovery

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The streets of London's most exclusive postcodes may have been much quieter than normal this year, but their housing markets have been surprisingly active. Demand has been underpinned by the value on offer compared with the peak of the market some six and a half years ago. Despite the restrictions on international travel, we've seen a core of buyers and sellers motivated to act, with a noticeable pick-up in activity prior to the second lockdown.

As some have headed to the countryside in search of additional space, value and a taste of country living, others have focused on the leafy pockets of London's prime postcodes for their forever home. Many of the world's wealthy remain keen to put roots down in areas of London that offer the best of both worlds – a village atmosphere and a community feel combined with a bustling global centre. This is why places such as Notting Hill, Chelsea, Kensington, Maida Vale and Mayfair have prospered over the past six months.

Despite the pandemic, prime central London's property market has remained resilient. Through the lens of detailed research and our own agents' voices, we tell the story of a market with enduring appeal and explore what's next for luxury residential property as a Covid-19 vaccine, which is the key to the streets of central London regaining their buzz, becomes closer to reality.

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Prime insight and intelligence

Cover: Universal Images Group/Getty images

How London is staging its latest comeback

Activity in London's £5 million-plus property in Q3 of 2020 indicates that when travel restrictions ease, the prime central London market is still set for recovery

Prime central London

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The prime central London market has faced a series of political and economic headwinds in recent years. All have contrived to put pressure on prices. Then came Covid-19.

Here, we examine the historical and global factors that have defined the market, the conditions that are turning the tide, and what the recovery could look like.

A MARKET READY FOR RECOVERY...

In the first three months of 2020 before the Covid-19 pandemic hit the UK, prices in the prime central London property market rose by 0.9%. It wasn't much, but it was the first quarter of price growth seen in four and a half years.

The market looked like it was primed to shake off the combined effects of a sustained tax assault and a bout of prolonged political uncertainty. While concerns over Brexit remained, the possibility of a political swing to the left had receded and the effect of a series of tax changes looked to have been fully priced into the market.

Properties looked good value. Though price adjustments of more than 20% had happened over a much longer period, they had fallen to a similar degree in both the late 1980s, early 1990s and – most abruptly of all – as a result of the global financial crisis (GFC). And with sterling at $1.24, there was the kind of currency play on offer that had historically kick-started a recovery.

The costs of buying a property in London were set to rise a little further because of a looming 2% non-resident buyers' stamp duty surcharge. But the total buy-hold-sell costs of prime residential real estate in the UK's capital were competitive with those of other world cities – as were prices. And finally, despite uncertainties of trade deals and trade wars, global wealth had been rising.

...PUT ON HOLD BY COVID-19

And then came Covid-19. The pandemic prompted sharp falls in global stock markets and commodity prices, quickly depleting the wealth reserves of the global elite. Almost overnight, central London lost its buzz, meaning the imperative to have a base here was lost. Travel restrictions curtailed international demand while domestic demand was held back by an inability to view properties in person.

Activity levels fell dramatically – by 60% in April according to data for the £1 million+ market in central London from LonRes – much as they did across the housing market as a whole. But while the price gains made in the briefest of Boris bounces unwound, there were no further substantial falls in prices, as the market was essentially put into suspended animation.

A SHIFT IN BUYER FOCUS

Since the housing market reopened, activity at the top end has generally picked up substantial momentum across the country.

The experience of the first lockdown unleashed a wave of demand from those looking for more space along London's wealth corridors and through the commuter zone.

> **"Prior to the pandemic, the market looked poised for recovery"**

TIMELINE
The growth of prime central London in the context of the capital's recent economic and political history

PRE-1984
DOMESTIC CENTRAL LONDON
Prior to 1984, London was a centre of parliament, arts and culture, but not yet a globalised financial centre. The prime property market was dominated by domestic buyers and urban living was relatively unfashionable. Linked to the domestic economy, price movements rose by 12.3% in real terms between mid-1979 and the end of 1983.

1984-2007
GROWTH AS A WORLD CITY
London's promotion to a global financial centre boosted the economy and house prices. Appeal grew with wealthy individuals from around the world. The market was susceptible to financial events but recovered well, particularly after the early 1990s recession. Despite this downturn, real price growth totalled 410% in this period.

2007-2008
GLOBAL FINANCIAL CRISIS (GFC)
As a result of the GFC in June 2008, the UK entered its deepest post-war recession. House prices across the country fell rapidly, -25.6% in real terms in 18 months for prime central London, and transaction levels slumped. Once again, central London was the first market to bottom out and recovered quickly.

2009-2014
POST-CREDIT CRUNCH
Values in prime central London were back to their pre-credit crunch level on an inflation-adjusted basis by June 2011, having risen 27.1% in the year to March 2010. This period saw high asset price inflation. Global capital sought safe-haven assets, and prime central London property fit the bill with values increasing by an average of 54.1%.

PRIME CENTRAL LONDON CAPITAL VALUES FORECAST

2020	-0.5%
2021	+4.0%
2022	+7.0%
2023	+4.0%
2024	+2.0%
5-YEAR	+17.5%

It has also prompted many to re-evaluate their lifestyle, meaning the appeal of country living has been rediscovered. That has prompted a long-awaited resurgence in the country house market, partially on the back of demand displaced from central London because of the nature of events.

As a result, each week between the beginning of June and the end of October, an average of 892 sales of property worth at least £1 million were agreed across the UK as a whole (according to data from TwentyCi). That figure is 72% higher than for the same period last year.

UNUSUALLY LATE TO THE PARTY

Correspondingly, the total number of sales of £1 million+ agreed in the first 10 months of the year have been 25% above those in 2019, despite an absence of activity during the months of the first lockdown. But the same data suggests that in the year to date, £1 million+ sales across Westminster, Kensington & Chelsea and Camden have been 5% lower than the same period last year.

Given the distinct dynamics of the central London market, there has not been quite the same urgency to buy. But there has remained a core of underlying demand.

Savills buyer registrations in central London have been lower than in the 10 weeks prior to the pandemic. Yet since the beginning of June, they have recovered to average 83% of those levels.

The constraints of international travel mean that demand from non-resident international buyers has become increasingly focused on off-plan purchases of investment properties. But there has been strong demand for houses with access to a private garden, particularly from buyers for whom central London is their main place of residence.

DEC 2014
SDLT OVERHAUL

Late 2014 saw Chancellor George Osborne overhaul Stamp Duty Land Tax. The tax liability increased for properties worth £937,500 or more and had a particular impact on the top end of the market. As London matured as a world city, price growth also slowed across prime central London with falls by an inflation-adjusted average of -6.6% in the two years to mid-2014.

APR 2016
ADDITIONAL SDLT SURCHARGE

From 1 April 2016, a new 3% stamp duty surcharge for additional homes was introduced, impacting investors and second home purchasers – buyers who are particularly dominant in the prime central London market. This led to a rush of transactions in March 2016 from those seeking to avoid the additional tax charges.

JUN 2016-DEC 2019
TAXATION, POLITICAL AND BREXIT UNCERTAINTY

Britain voted to leave the EU in June 2016 and uncertainty followed. In October 2018, Theresa May mooted the idea of an additional stamp duty surcharge for overseas purchases. Sentiment ebbed and flowed, and values gradually fell by -20.1% on an inflation-adjusted basis over the three-and-a-half-year period to the end of 2019.

DEC 2019
CONSERVATIVE MAJORITY GOVERNMENT

While Brexit uncertainty remained, the risk of a political swing to the left had receded and the effect of a series of tax changes looked to have been fully priced into the market. Prices across prime central London remained broadly flat towards the back end of 2019.

BUT ENCOURAGING SIGNS

Confidence can also be taken from a surge in £5 million+ transactions in the third quarter of the year. Some 95 purchases of such properties (17% higher than the quarterly average of the past four years) with a total spend of £876 million are testament to the underlying appeal of central London property to the world's ultra-high net worth community. The spending power of this group has been partially restored by a rebound in stock and commodity prices.

During October, the oil price was back at $40 per barrel, having fallen to less than $20 (albeit 23% short of its 2015-2019 average). Similarly, the FTSE 100 and Hang Seng were within 23% and 15% of their 2019 peak, while the Dow Jones and the Nikkei were both within 5% of that pre-Covid-19 benchmark.

This has been supplemented by continued wealth generation from both the technology and life sciences sectors, where levels of private equity and venture capital funding have continued unabated.

So in their recent Billionaires Insights 2020 'Riding the Storm' report, UBS and PwC recently reported that global billionaire wealth hit a new high of £10.2 trillion at the end of July, as the 'innovators and disrupters' within this group have built on their wealth despite the pandemic.

'WHEN' AND NOT 'IF'

All of the above means we continue to believe that a recovery in the prime central London market remains a case of 'when' and not 'if'.

The timing of such a recovery is primarily dependent on the roll-out of an effective Covid-19 vaccine and a corresponding relaxation of travel restrictions. That should allow central London to restore its credentials as a location of choice for the world's wealthy and, by giving them the opportunity to enjoy the amenities it offers, provide the impetus to kick-start its housing market.

"Potentially effective vaccines suggest light at the end of the tunnel"

Despite a second lockdown, the news of several potentially effective vaccines suggests there is light at the end of the tunnel. However, it remains to be seen whether it will come early enough to support activity prior to the end of the stamp duty holiday and imposition of a further 2% non-resident surcharge.

The changed tax landscape in the UK is one reason why we believe prime central London's recovery will be less dramatic than it has been in the past.

In the five years after the downturn of the late 1980s and early 1990s, the value of London's most expensive residential real estate rose by 98%. In the five years after the credit crunch, prices rose by 79%. But the former occurred during London's elevation on the world stage as a destination for global wealth, and the latter occurred in the age of the global financial stimulus.

Now, London has arguably reached maturity as a world city. This, together with a tighter focus on the provenance of wealth and a less generous tax environment, points to a slower pace of recovery – when it comes – however overdue it seems and however much central London residential real estate looks good value, as it undoubtedly now does.

JAN-MAR 2020
PRE-COVID-19 PANDEMIC

Quarterly price growth returned to the prime central London market for the first time since mid-2014 in real terms with prices rising by an average of +0.9%, and properties looked good value. Despite uncertainties of trade deals and trade wars, global wealth had been rising.

MAR 2020
COVID-19 PANDEMIC AND FIRST UK LOCKDOWN

Significant sharp falls in global stock markets and commodity prices depleted the wealth reserves of the global elite. Central London lost its buzz, and activity levels in the prime property market fell dramatically.

MAY 2020-PRESENT
HOUSING MARKET REOPENS

Activity at the top end picked up, fuelled by those looking for more space along London's wealth corridors. In central London, there has remained a core of underlying demand, but not the same urgency to buy. Restrictions on international travel dampened demand from overseas buyers looking to buy high value property in the capital.

POST-PANDEMIC
A DIFFERENT ENVIRONMENT FOR A RECOVERY

As the spending power of the ultra-high net worth community becomes partially restored by a rebound in stock and commodity prices, a recovery in the prime central London market remains a case of 'when' and not 'if'.

Tales from the front line

Property and finance expert Anne Ashworth examines the state of the prime central London market in conversation with five of our agents

Anne Ashworth
Property and finance expert

The prime central London property market has been altered by the events of 2020. Anne Ashworth sits down with five Savills agents to discuss the current state of the market, how the role of an estate agent is changing and their predictions on what comes next.

Anne Ashworth is an award-winning property and finance writer, commentator and consultant. While at *The Times*, she edited both Bricks & Mortar, covering property and interiors, and Times Money, the personal finance section. On 10 November, Anne hosted the Savills webinar *In focus: Prime central London's property market*, where she discussed what's next for luxury residential property and moderated a discussion with our panel of experts, all of whom are featured here. To watch the webinar, visit: http://sav.li/pcl2020

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At the start of this year, we had an extraordinary number of enquiries, sparked by the election result in December of 2019. This was after a challenging period that began in 2014 when stamp duty was raised.

Recent months have been more difficult. International buyers have been unable or reluctant to travel. However, London's fundamentals remain good, given the conflict elsewhere in the world. Over the past couple of decades, the quality and diversity of the properties here has improved. Once you would go inside a beautiful period home and it would often be in a poor state of decoration. Now the British are global leaders in interior design.

Despite its challenges, it's been a pretty good year. It's been a time when knowledge really counts. As an agent it is imperative to know where to start hunting for houses that are not for sale but could be available. However, if someone wants to sell their peerless house and move to something of equal calibre, it can be difficult to find such a property. There is a real scarcity of proper mansions.

Our expertise lies in guiding a person to the place where they actually want to live, even though this may not be where they begin their search. For example, people love the idea of Mayfair – a marvellous neighbourhood, but not the place where you'll find a low-built house with a garden and parking. For those things, you need to go to Notting Hill or St John's Wood.

If you are selling in one of those areas or anywhere else, I would say that this is the time to be nimble in your thinking. You have to be prepared to look at every offer on its merits.

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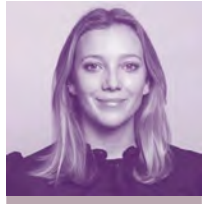
One of the things I enjoy most about my job in this rarefied bit of London is meeting interesting, successful people and putting them into a house where they really want to live. And over the past few months, things have been busier than you might expect in Kensington and Notting Hill. We've been selling houses, not pied-à-terres, to people who fly in and out of London. Bigger flats with no outdoor space have tended to be harder to sell. But a lot of wealthier families – where the parents work in finance or private equity – emerged from the first lockdown with a sense of carpe diem. They wanted to upgrade to larger properties in neighbourhoods that are not only near green spaces such as Kensington Gardens and Holland Park, but also have a strong community spirit.

Some people may have decamped to the country for larger gardens and more space, but others have realised they are wedded to London. Once your children are in school, it's far from easy to unpick your life in the city. It can be as difficult to get your children into the best schools in Oxford, for example, as it is in the capital. Added to which, it may be harder to break into the social circles that have been long established in the country.

The demand is highest for best-in-class properties. In early November, several properties near to schools went to sealed bids, with local families competing with each other. But, this has been the exception rather than the rule, meaning you should still adopt a relatively sober pricing strategy to find a buyer.

"A lot of wealthier families emerged from the first lockdown with a sense of carpe diem"



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Dealing with the pent-up demand created by the first lockdown has demonstrated how resilient the prime central London lettings market is. But things are changing; gone are the days when companies rented properties for their senior executives. Instead, our clients are looking for homes for themselves. Often they're tech company bosses – a surprising number run gaming businesses – and they are younger than before. Over the past two years, the average age of a tenant seeking a £4,000-a-week-plus super prime rental has fallen from 55 to 46.

They have considerable choice at present, thanks to strong stock levels. High-calibre homes, previously rarely available, are now more commonly on the market. Some people have been moving out to the country, sensing the first lockdown would be followed by more such periods. But others are keen to secure larger, longer-term rentals in London. For them, the city lights are a solace during dark winter nights.

At the moment we're working closely with our landlord clients, helping them to be competitive by advising which projects provide the best return on investment. I believe in 'branding'; styling a home and creating just the right atmosphere. This ensures prospective tenants can imagine themselves living in a place for a long time.

What I love about the prime central London world is how unexpectedly close-knit it is, despite the discretion that covers transactions. Our landlords and tenants often know each other through friends, family or colleagues, or go on to rent out properties to each other in other parts of the world.

"The city lights are a solace during dark winter nights"

"This period is an opportunity to define what the role of an estate agent should be"

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No two days are ever the same in this job. We've always had to be on our toes. But now, more than ever, we have to keep evolving, to be one step in front of every type of change. Take virtual viewings, for example – who could have predicted how important they'd become, and how quickly?

This evolution is going to continue and to keep ahead, we have to predict where the market could be going next. Despite all of the uncertainties of this year, there has been a market in prime central London. Our experience is that buyers and sellers have become increasingly motivated to act. With the prospect of the market gathering further momentum next year, it's important for our clients to have a plan and it is our job to help them formulate it. This period is an opportunity to define what the role of an estate agent should be.

At present, we have to help our clients towards understanding what kind of lifestyle they want now and in the future; to help them grasp what their dreams and aspirations are. They want more than simply pictures of great-looking properties. Part of the life of an estate agent is to be a psychologist and counsellor, after all. But this support and advice is backed up by research and even more analysis than before. It is a total privilege to see inside some of the finest properties in the world, and it is the greatest compliment that an owner of such a home trusts us to deal with this valuable investment. We have to be respectful of that trust.

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What I've been excited about over past months is how London's villages and their high streets have been revitalised, gaining more of a community feel after the first lockdown. Before the second lockdown, local shops were doing brilliantly, thanks in large part to people working from home who have been using these places more.

This feels like more than just a flash in the pan. However, this happened less in the centre of town, where the population is more international. This year, those international buyers have been happy to buy off-plan up to £1 million, but they're not going to be buying more expensive homes remotely despite the value on offer. That is only likely to change once international travel restrictions are eased, and then it could change quite quickly.

But the trend I have noticed in prime central London is the shift in the balance from Knightsbridge to Mayfair. The latter has a more subtle, established atmosphere with incredible restaurants and smart developments like the apartment schemes in Grosvenor Square by Finchatton and Lodha.

The demand for more green space and more room to work from home will influence which developments are successful. A scheme is going to need more outdoor space and a clubhouse that's also a business centre, with great broadband and an office vibe. You may not be able to mingle with your own colleagues, but you can meet other like-minded people. This kind of facility is really useful for people living alone or sharing smaller flats. For developers, it's a great opportunity.

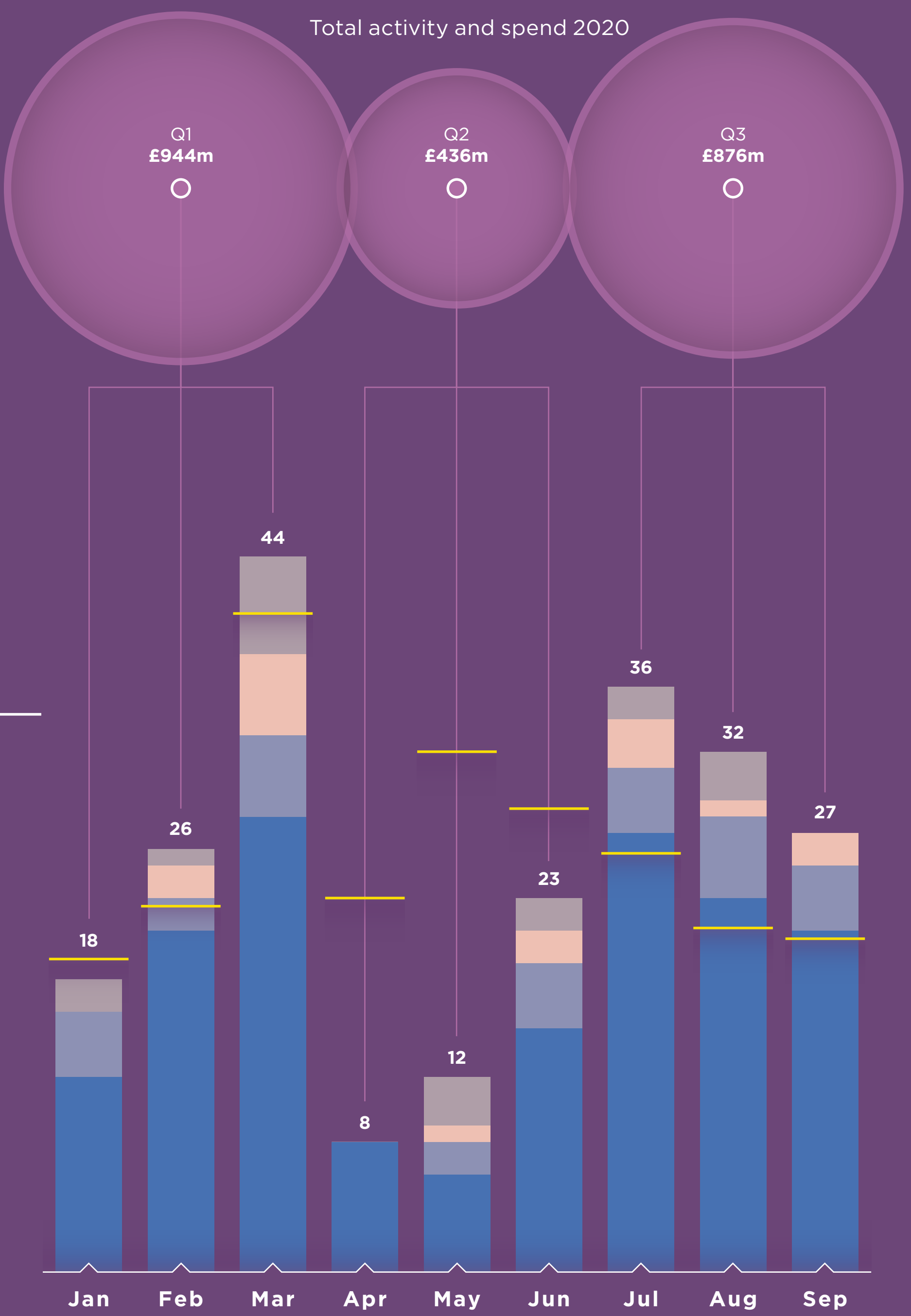
"London's villages and their high streets have been revitalised"

Diving deeper into the data

We examine transaction activity, prices, buyer demand and international activity in London's prime central property markets

ACTIVITY AND SPEND ABOVE £5 MILLION

The £5 million+ market has been surprisingly active, fuelled by needs-based rather than discretionary buyers. After a strong start to 2020, with 88 £5 million+ transactions in the first quarter, turnover across the market as a whole fell back to just 43 in the second quarter as the first lockdown took its toll, before rebounding to 95 sales in the three months to the end of September. For now, prime central London residential values remain around -21% below peak and significantly more for those playing the currency card. We'll likely have to wait until the back end of 2021 and into 2022 before a stronger recovery in values takes hold.

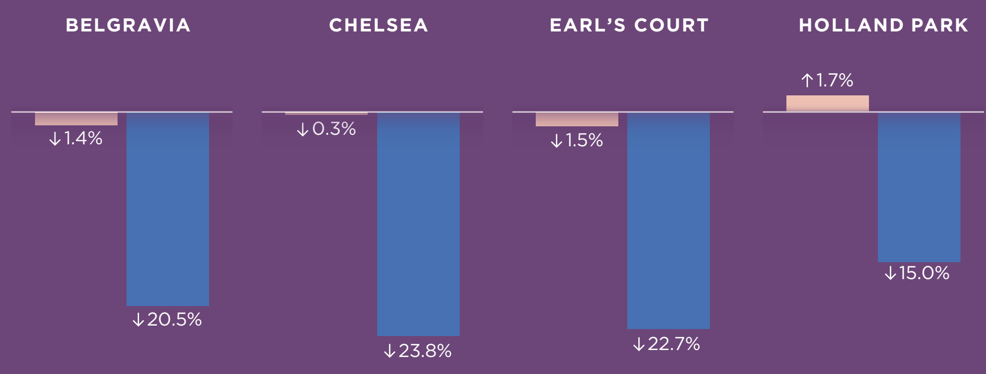


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Previous 4 year average	19.25	22.5	40.5	23	32	28.5	25.75	21	20.5
Difference vs previous 4 years	↓6.5%	↑15.6%	↑8.6%	↓65.2%	↓62.5%	↓19.3%	↑39.8%	↑52.4%	↑31.7%

Source Savills Research

PRIME CENTRAL LONDON BY DISTRICT

Which districts are experiencing growth? Our Q3 2020 analysis shows prime property price growth on an annual basis, and since the 2014 peak.



Source Savills prime London index, Q3 2020

TAKING A LOOK AT BUYER DEMAND

When the market reopened in May, top-end activity picked up. London's recovery began later than its country counterpart, but in the three months to September, we saw a strong rebound in sales for properties over £5 million. This suggests underlying demand for the capital's most expensive homes.

Source Savills Research

↑ +0.4%

Properties with a large garden in prime central London saw the strongest quarterly growth throughout the three months to September highlighting that more buyers are seeking property with outside space.

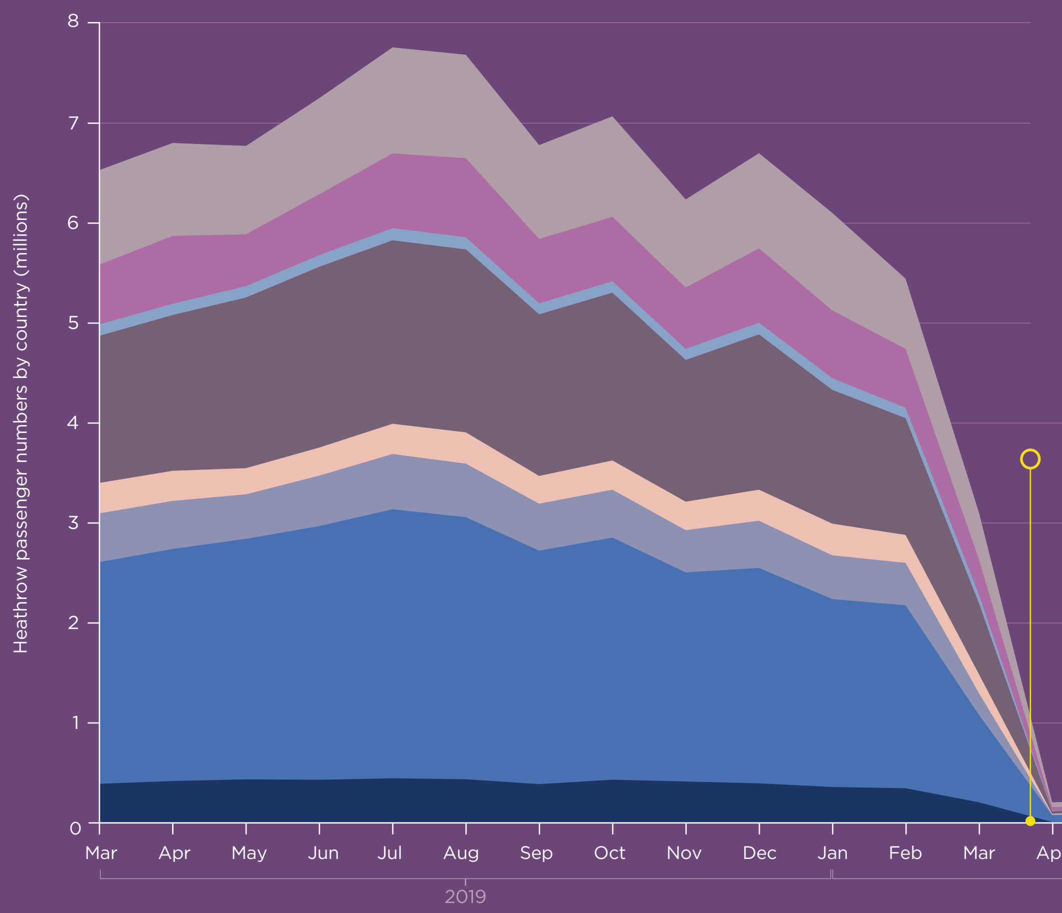
↓ -66%

Post-March lockdown
In the week following the start of the first lockdown, new buyer registrations for our offices in prime central London fell by an average of 66%.

83%

Savills buyer registrations in central London have been lower than in the 10 weeks prior to the pandemic. Yet from the beginning of June to the beginning of November, they have recovered to average 83% of those levels.

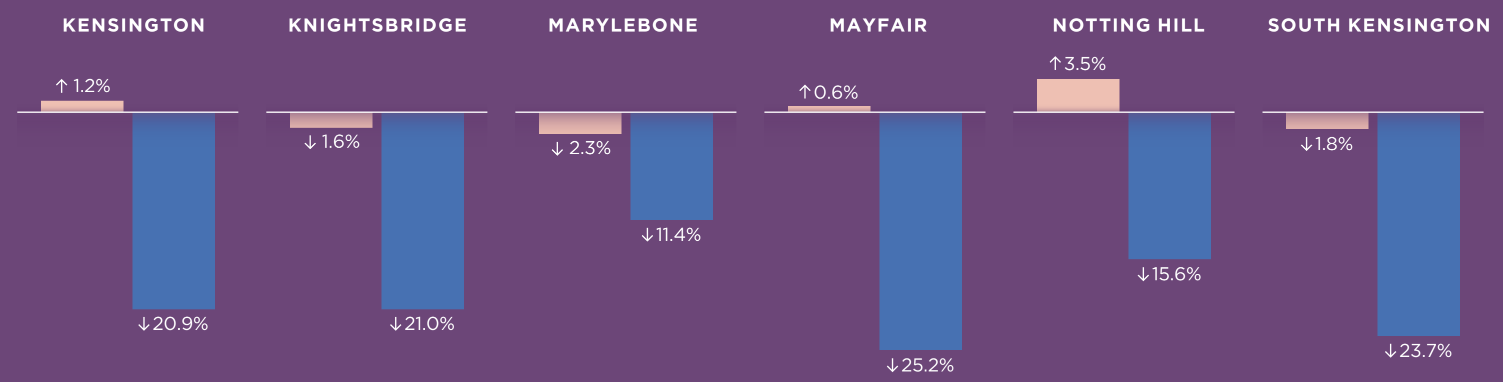
THE ABSENCE OF INTERNATIONAL TRAVEL



The slower rebound of the prime central London property market has been in no small part due to the constraints of international travel. The data shows passenger numbers into London's Heathrow Airport, one of the busiest in Europe, prior to the Covid-19 pandemic. With a fraction of international arrivals, this has meant less competition and more opportunity for those on the ground.

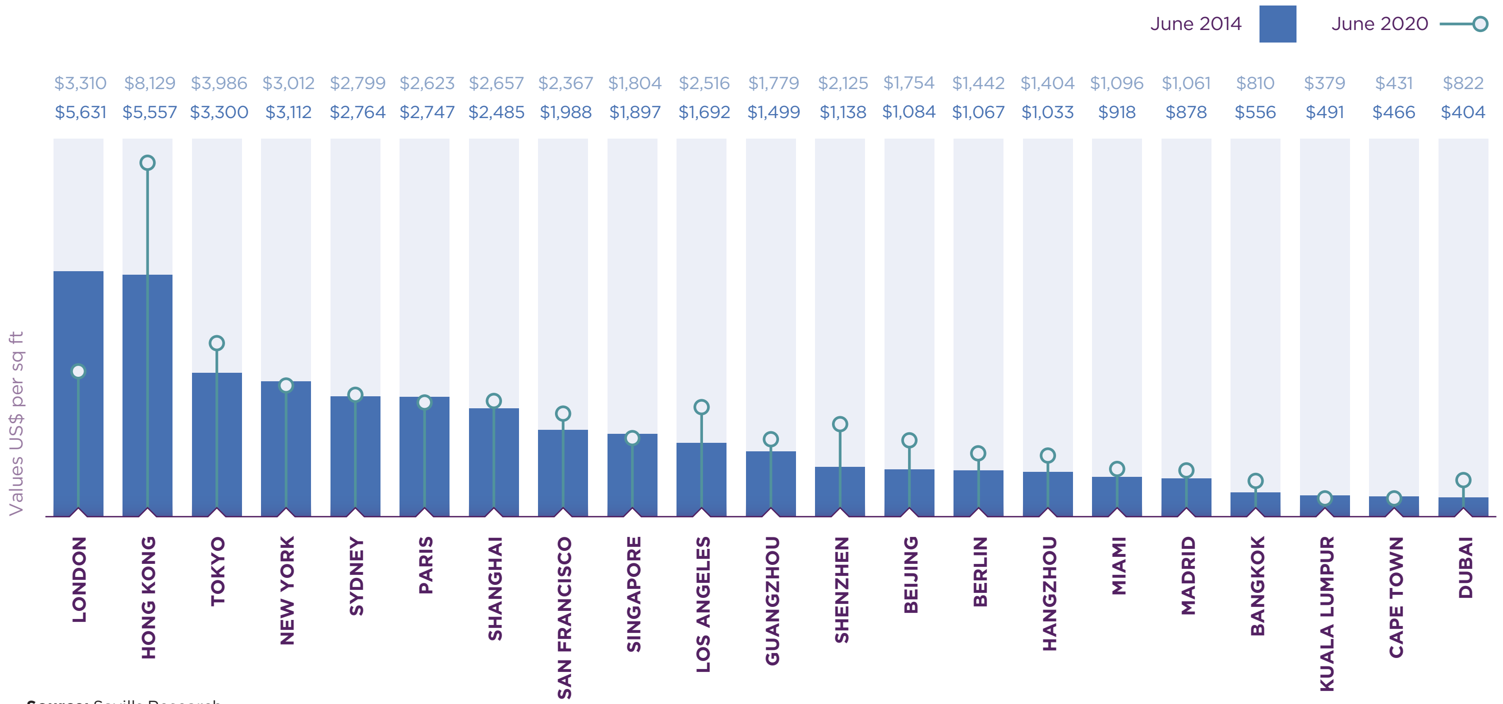
Note Heathrow passenger numbers excluding Gatwick, Stansted, Edinburgh, Naples, Aberdeen, Glasgow and Southampton
Source Heathrow Airport Limited

23 March 2020
Boris Johnson told the country that people must stay at home and certain businesses must close. The vast majority of flights into the UK are grounded



ULTRA PRIME LONDON IN COMPARISON WITH OTHER GLOBAL CITIES

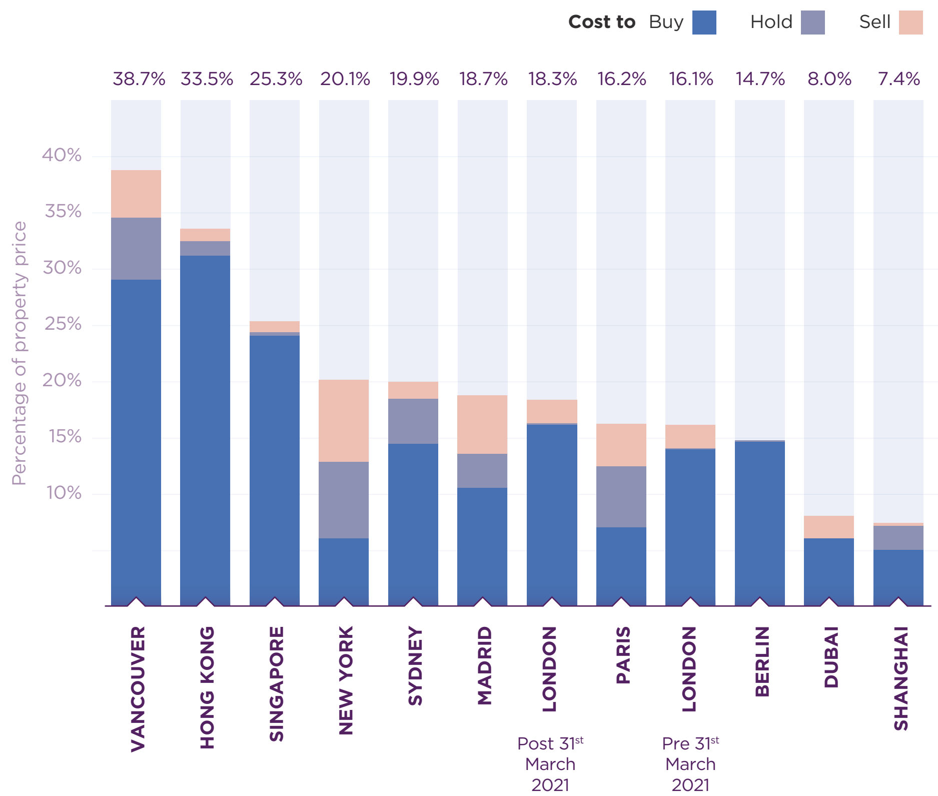
With large and dynamic cities tending to remain popular with the global wealthy over long periods of time, we compare London's ultra prime residential values per square foot with some of the world's richest cities.



Source: Savills Research

THE COST OF BUYING, HOLDING AND SELLING A $10 MILLION PROPERTY AROUND THE GLOBE

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 globe.



Note Our scenario assumes a non-resident overseas buyer purchasing a $10 million property (which in the UK equates to £7,918,800). 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 announced on 8 July 2020. **Source** Savills Research savills

Prime Central London 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.

Savills Research We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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