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UK Residential

Spotlight Notting Hill

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Market overview

THE JOURNEY TO PRIME

Notting Hill is a super prime residential district within central London

Few areas in London have such a diverse history as Notting Hill. Over the past 25 years, the area has risen up the rankings to become one of the capital's most exclusive addresses.

Before the expansion of London reached Notting Hill, the area was rural and best known for its potteries and piggeries. Development activity began in the early 19th century, led by the Ladbroke family who were responsible for the street layout, designed to turn the area into a fashionable suburb of the capital. The large houses, available at a discount to more established areas, attracted many affluent buyers.

The area's appeal began to wane during the 20th century

as middle-class households ceased to employ servants and consequently large houses were increasingly split into flats. In the 1950s, many immigrants from the Caribbean settled in the area, establishing the multicultural roots still seen today.

The re-gentrification of Notting Hill began in the 1980s as many wealthy creative families were attracted to the open spaces and stylish architecture combined with the area's bohemian feel. In 1999, the film *Notting Hill* saw the profile of the area rise further, and today it is one of the most expensive locations in London.

A huge range of properties can be found in Notting Hill, from the grand white stucco-fronted houses surrounding communal gardens and their associated

streets of mews houses, to smaller, colourful terraces.

Over time, many houses were converted into flats and now just 15% of the residential property in the area remains as houses.

Property prices

Across the wider Notting Hill area, the average sale price in 2015 was £1.24m, however prices vary significantly. In W11, the core Notting Hill postcode, the average sale price was £1.02m for a flat, increasing to £3.87m for a house. By comparison, in the neighbouring district of North Kensington (W10), the average sale price last year was 54% cheaper than in W11 at £770k, and W2 sits somewhere in the middle at £1.19m.

In the prime markets, the average price per square foot is £1,870 but can vary between £1,300 and £2,600, depending on the location, size and finish of the property.

One factor which can significantly impact property prices is outside space. Within the Notting Hill area, some of the most sought-after addresses have access to one of the 16 communal gardens. Properties with access to these communal gardens cost on average £1,970 per square foot, 11% more than those with a terrace and balcony, and even command a 4% premium over properties with just a private garden.

Over the past 10 years, prime property prices in Notting Hill have behaved in line with the prime central London average. However, prior to that in the early 2000s, price growth significantly outperformed as the area gentrified. Over the five



years from 2000, prime prices in Notting Hill increased by 66% compared to an increase of 37% seen across the wider prime central London area.

The rate of price growth has slowed recently and small falls were recorded following the reform of stamp duty in December 2014. However, this follows very strong price growth in the lead up to and since the credit crunch.

Rental market

In Notting Hill, the median monthly rent is £2,630, according to Rightmove. Rental values vary significantly

depending on property type and size, ranging from an average of just under £2,000 for a 1 bed property to over £10,000 for a 5+ bed property.

In the prime rental market, the average annual rent per square foot is currently £62, slightly higher than the average for prime central London at £58 per square foot. Properties in immaculate condition can achieve up to £100 per square foot, while properties which are run down or in less desirable locations can achieve just £35 per square foot.

Rental values for prime properties in Notting Hill have

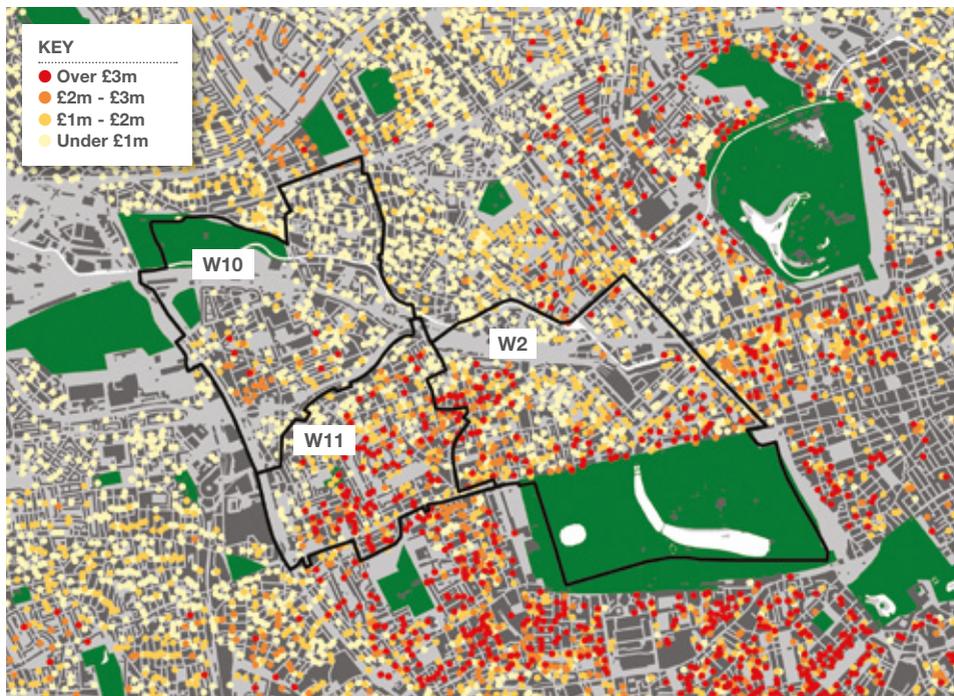
been stable over the past five years, increasing just 5% over this period as supply and demand remain well balanced.

Demand

Notting Hill is considered one of the most desirable locations to live in London, attracting the rich and famous from all over the world. Like many other areas in prime central London, just under half the buyers are international, with 20% of all buyers coming from Western Europe.

Unsurprisingly, given the high property prices, 80% of buyers

FIGURE 1 **The Notting Hill housing market in 2014/2015**
A look at where the sales happened and at what value



in Notting Hill who already lived in the UK moved from within the boroughs of Kensington and Chelsea or the City of Westminster.

However, unlike some central locations, the majority (two thirds) of purchasers in Notting Hill are buying property to use as their main residence, giving the area a strong community feel.

The demand for rental properties in Notting Hill comes from those who are relocating to the area, either for lifestyle or, more commonly, employment reasons. International tenants account for 70%, with the highest proportion coming from Western Europe and North America.

Access to employment hubs is key for both buyer and tenant demand. Notting Hill already benefits from having excellent transport links, the Central Line in particular takes employees directly to the West End and the City. By late 2018, Crossrail is expected to open and the stop in Paddington will provide even quicker access to employment hubs including Canary Wharf and Heathrow. ■



FIGURE 2 What would the same property sell or rent for on our featured roads?

4-BEDROOM TERRACED HOUSE 2,500 SQ FT			
Location	Postcode	Sale Price	Rental Value*
Elgin Crescent	W11	£7m	£3,000
Norland Square	W11	£5.5m	£2,850
Northumberland Place	W2	£4.25m	£2,250
Highlever Road	W10	£2.75m	£1,850

1ST FLOOR FLAT, 2 BEDROOMS & 2 BATHROOMS 800 SQ FT			
Location	Postcode	Sale Price	Rental Value*
Cleveland Square	W2	£1.45m	£800
Arundel Gardens	W11	£1.525m	£775
Pembridge Square	W11	£1.6m	£825
Bassett Road	W10	£1.12m	£675

11%

The premium for properties with access to communal gardens

£100

Rent per sq ft houses in immaculate condition can command

Development

EXPANDING THE BOUNDARIES OF PRIME

Regeneration in the areas around Notting Hill is expected to have a positive effect on period housing stock

Within Notting Hill, development activity is limited to small, bespoke developments, often consisting of just a few properties. However, the area is surrounded by larger regeneration sites at Paddington and White City.

In Paddington, there are currently around 2,300 units either in planning or with permission, of which 1,800 are private. This includes the controversial Paddington Place development, better known as the Paddington Pole, which was originally proposed to be a 72-storey skyscraper but has recently been withdrawn and the scheme will now be revised.

Development activity at White City is on a larger scale. It has been designated a development opportunity area by Hammersmith and Fulham Council, with £8bn being invested in the regeneration of the area. Over the next 15 years, the ambition is to transform the area from a stark, largely commercial district into a lively neighbourhood with more than 5,000 new homes, shops, restaurants, a media village, landscaped public space and upgraded transport links.

In October 2015, the first phase of Television Centre, the BBC's former White City headquarters, went on sale. It is being developed by Stanhope and Mitsui Fudosan into 950 new homes,

a Soho House hotel and private members' club. Westfield, which opened a huge shopping centre at Shepherd's Bush in 2008, is expanding at its White City branch with plans to include a John Lewis department store and 1,500 homes. Further large schemes of more than 1,000 residential units are being developed by St James and Imperial College London.

Both White City and Paddington currently have average property prices significantly lower than surrounding areas, particularly Notting Hill. The regeneration in both locations is expected to expand the boundaries of the prime areas and is likely to have a positive effect on the surrounding period housing stock. ■



BBC Television Centre - apartments and penthouses will make up the existing circular Grade II listed building



Paddington Exchange - the communal garden

Outlook

THE WIDER CONTEXT

Prime central London property prices are set to plateau before a gradual return to growth

The outlook for Notting Hill needs to be considered in the context of the wider prime London market.

The sales market

In prime London, the stamp duty changes introduced in the 2014 Autumn Statement have had a bigger impact than many forecast as the effect was initially masked by the uncertainty in the run up to the General Election. However, the prime London housing market reacted relatively rationally to the changes, as prices adjusted in line with the stamp duty increase, or in the case of homes below £937k, decrease.

Further stamp duty changes were announced in the 2015

Autumn Statement, for buyers of “Additional Homes” (second homes and buy-to-let) causing further small price falls in markets with high concentrations of such buyers in the last quarter of 2015. In Notting Hill, more buyers are purchasing property to use as their main residence than across the wider prime central London area, meaning this additional tax should have less of an impact.

We expect prime central London property prices, including Notting Hill, to remain broadly flat through 2016 and most of 2017 followed by a gradual return to trend rates of price growth over the medium term supported by the fundamentals of wealth generation.

The rental market

The prime rental market in London is driven by the economy and employment opportunities, which are both forecast to continue improving over the next five years.

This will continue to draw more people to move to London. Notting Hill in particular is a popular choice for corporate relocators from overseas, moving to London for a few years.

Prime London rents depend on a careful balance of demand and supply. Some locations are finding that due to the high levels of new build stock coming to the rental market, rents are coming under pressure.

Notting Hill is not seeing high levels of development activity, but neighbouring White City and Paddington are. This means that landlords will need to keep their properties maintained in an immaculate condition to prevent tenants choosing new build properties in alternative locations. ■

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