

SUPER PRIME LETTINGS INSIGHT

2016

The slower sales market over the past 12 months has boosted demand in the super-prime lettings market, as Tom Smith tells Tom Bill

Higher rates of stamp duty have altered the dynamics of both the lettings and sales markets in prime central London.

While increased transaction costs above £1.1 million have slowed demand among buyers, lettings activity has risen.

In particular, the super-prime (£5,000-plus/week) lettings market has benefitted following a succession of tax changes which have led to greater price sensitivity among buyers.

The stamp duty on the purchase of a £15 million property is £1.7 million, which is the equivalent to three years rent. It is a calculation that is driving super-prime lettings demand, said Tom Smith, Knight Frank's head of super-prime lettings.

"Given the higher running costs buyers also face, stamp duty can be a concern unless they plan to be in a property for the long-term," said Tom. "This is particularly the case while uncertainty surrounds the short-term prospects for price growth."

The number of super-prime lettings transactions increased 16% to 109 in the year to September 2016 compared to the previous year, according to LonRes data. Meanwhile, the number of viewings increased by 6% over the same period, Knight Frank data shows.

Transactions were spread across central London, with a focus on areas including South Kensington, Knightsbridge, Mayfair, Regent's Park and Holland Park, as figure 1 shows.

As demand intensifies, landlords do not always appreciate the requirements of tenants in relation to specification and finish, says Tom.

"A common mistake is to think the requirements of a tenant are less stringent than they are if

they were buying the house" he said. "It means that bathrooms and kitchens need to be kitted out with the top brands. It is no coincidence that those properties generating higher rents and yields are those originally destined for the sales market."

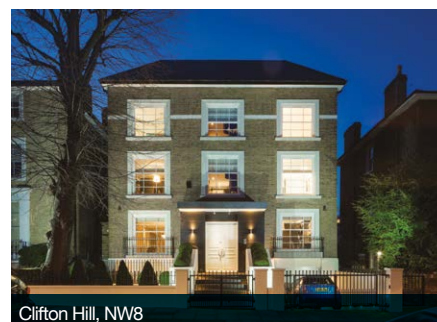
Yields can reach between 3.5% and 4% for best-in-class super-prime properties due to their relative scarcity, which compares to less than 3% across prime central as a whole.

The number of houses let compared to apartments has increased over the course of the last 12 months in a sign of growing demand among families. Houses represented 64% of transactions in the six months to September compared to 60% in the first six months of the year, a trend further exacerbated by a lack of large lateral flats.

"It is also a reflection of the current uncertainty in the sales market," said Tom. "A growing number of high-specification houses destined for sale and are moving across to the lettings market."

The growth of the super-prime lettings market is providing increased competition to hotel suites, however it is a more cost-effective way of having a base in London. On the basis that a top London hotel suite costs £5,000 per night and a property costs £5,000 per week, renting it is seven times better value for money.

"A lettings property is also a home" says Tom. "Super-prime developments are typically linked up to the concierge service of a top hotel, which means tenants can pick and choose to get the best of both worlds."



Clifton Hill, NW8



Wilton Crescent, SW1

Super-Prime Lettings Team

The Knight Frank Super-Prime Lettings team provides a bespoke service to clients with property interests of £5,000-plus per week in prime central London. Led by Tom Smith, the team consists of 12 local specialists with over 130 years of collective experience and has a dominant market share in London. The team members are based in Belgravia, Belsize Park, Chelsea, Hampstead, Hyde Park, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington and St John's Wood. Knight Frank's global real estate network gives the team access to London's most exclusive properties on and off the market.



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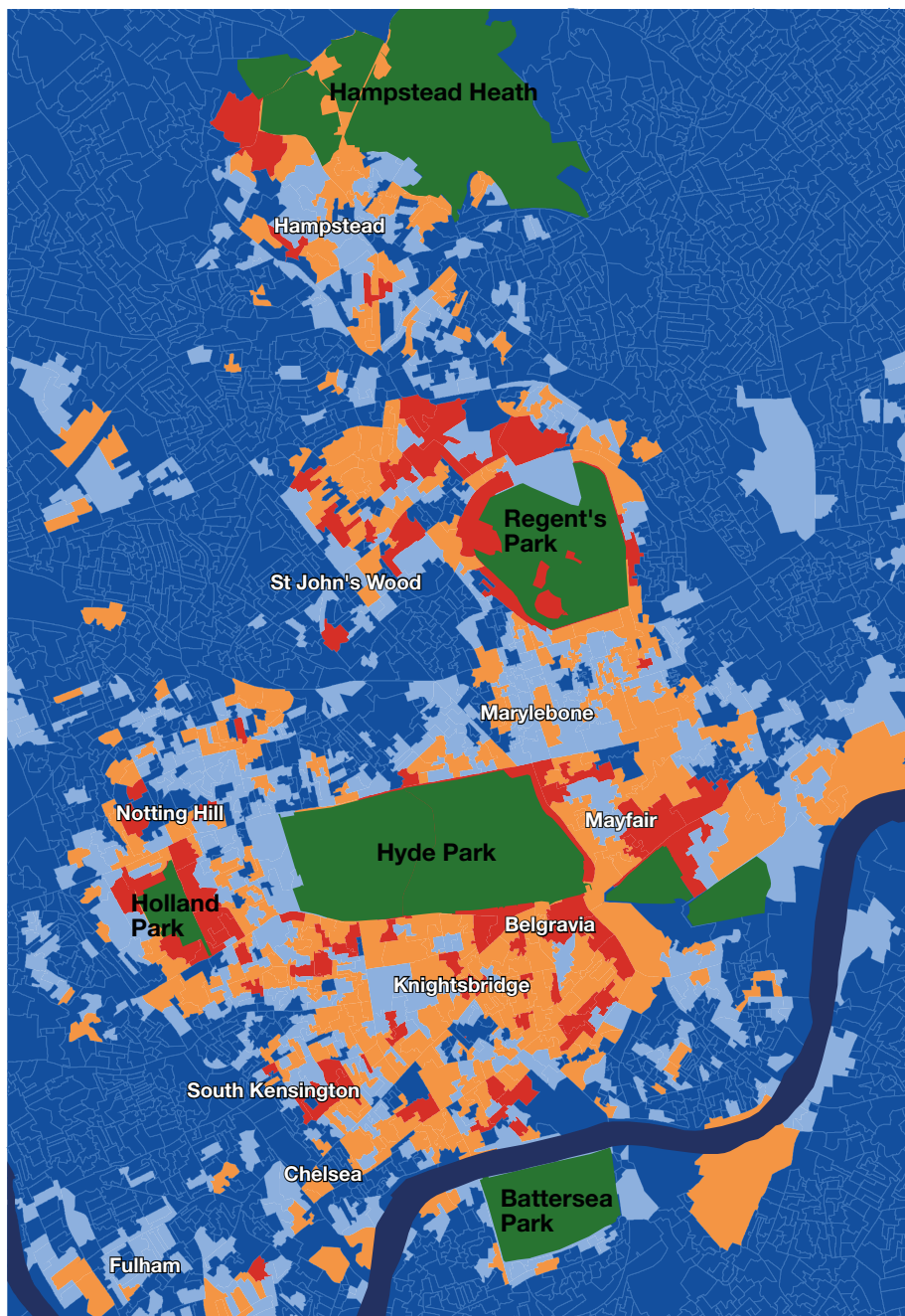
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FIGURE 1

Highest achieved weekly rent 12 months to September 2016 by output area

■ Sub £1,000
 ■ £1,000 - £2,000
 ■ £2,000 - £5,000
 ■ £5,000 plus



Source: Knight Frank Research / LonRes

FIGURE 2

Super-prime lettings market share

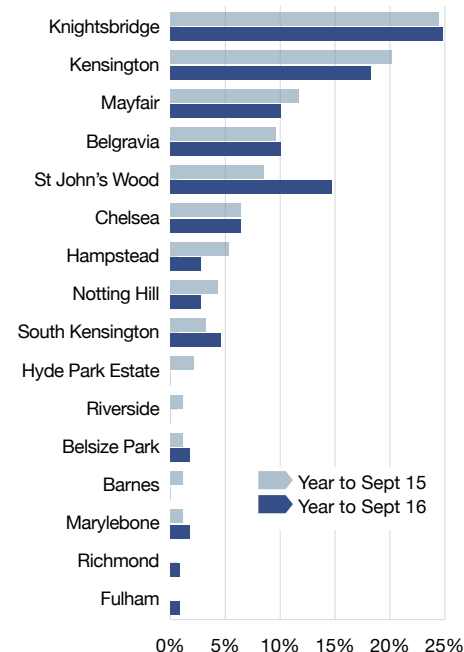


FIGURE 3

Super-prime London lettings market in numbers

16%

Increase in the number of super-prime lettings deals in the year to September 2016 versus a year earlier

6%

Increase in the number of viewings of super-prime lettings properties in the year to September 2016 versus a year earlier

64%

Percentage of super-prime lettings deals that were houses in the six months to September 2016

24.8%

Percentage of London's super-prime lettings deals done in Knightsbridge in the year to September 2016

Source: Knight Frank Research



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