RESIDENTIAL RESEARCH

SUPER-PRIME LONDON INSIGHT Q2 2014

FOREIGN BUYERS AND 'GOLDEN POSTCODES' LOSE DOMINANCE IN SUPER-PRIME LONDON

The super-prime property map of London is changing as the financial crisis starts to ease, as Tom Bill explains.

Spring 2014

British buyers rise from 36% in 2013 to 53% since the start of 2014

UK and European buyers represent more than three-quarters of the market in 2014 compared to under half last year

Price growth slows to 3.3% as more buyers look beyond the 'golden postcodes' of central London

Just over a quarter of deals were done in 'golden postcodes' at the start of 2014 versus 51% last year

Areas like Marylebone and Hyde Park are now established on London's super-prime map

TOM BILL
Head of London Residential Research

"There are more British buyers in the super-prime bracket than at any time since the collapse of Lehman Brothers."

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With macro-economic risks receding, fewer foreign buyers are seeking the "safe-haven" appeal of London property.

Average annual price growth across prime central London in the year to April slowed to 7.5%, but the figure is noticeably lower in the higher price brackets. As figure 1 shows, annual growth for £10 million-plus properties was 3.3%.

This moderation in the rate of growth comes as buyers increasingly seek value beyond the 'golden postcodes' of Mayfair, Knightsbridge and Belgravia and vendors become more realistic on pricing.

Super-prime property prices grew strongly in the immediate fallout of the financial crisis and to some extent the rest of prime central London is now catching up, helping to explain the divergence in performance between the £10 million+ and and the rest of the prime London market.

"Super-prime was the first out of the blocks in 2009 with rapid price increases fuelled by UHNW overseas buyers seeking a safe haven for their cash," said Tim Wright of Knight Frank's Prime Central London team. "It was all about wealth preservation and the top end of the London residential market was the asset class of choice. The advantageous exchange rate obviously helped"

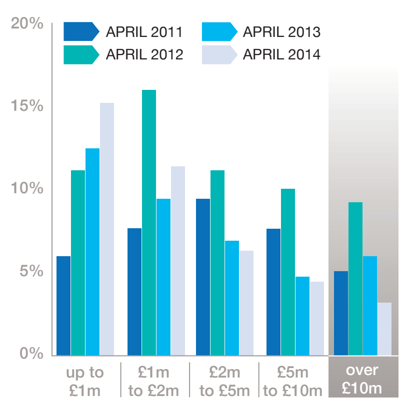
British buyers are increasingly stepping into the place of foreign buyers as threats like the collapse of the euro zone diminish.

Combined with an improving UK economy, it means there are more British buyers in the super-prime bracket than at any time since the collapse of Lehman Brothers.

As figure 2 shows, UK buyers have accounted for 53% of the market since the start of 2014, which is up from 36% last year and 27% in 2012. The combined figure for UK and European buyers is 79% this year versus 46% in 2013, a notable increase that underlines how sustainable demand remains for super-prime property.

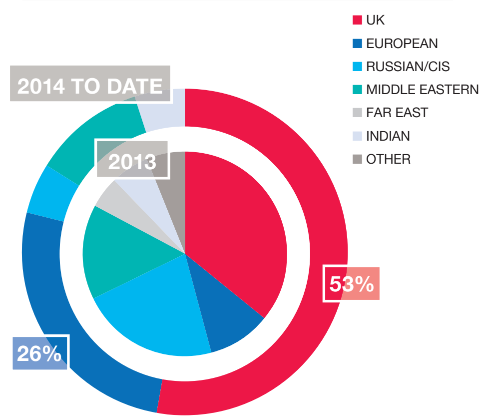
This is also demonstrated by the fact transaction levels have jumped markedly. There was a 54% increase in the number of £10 million-plus deals done in the 12

FIGURE 1
Annual growth by price bracket in prime central London



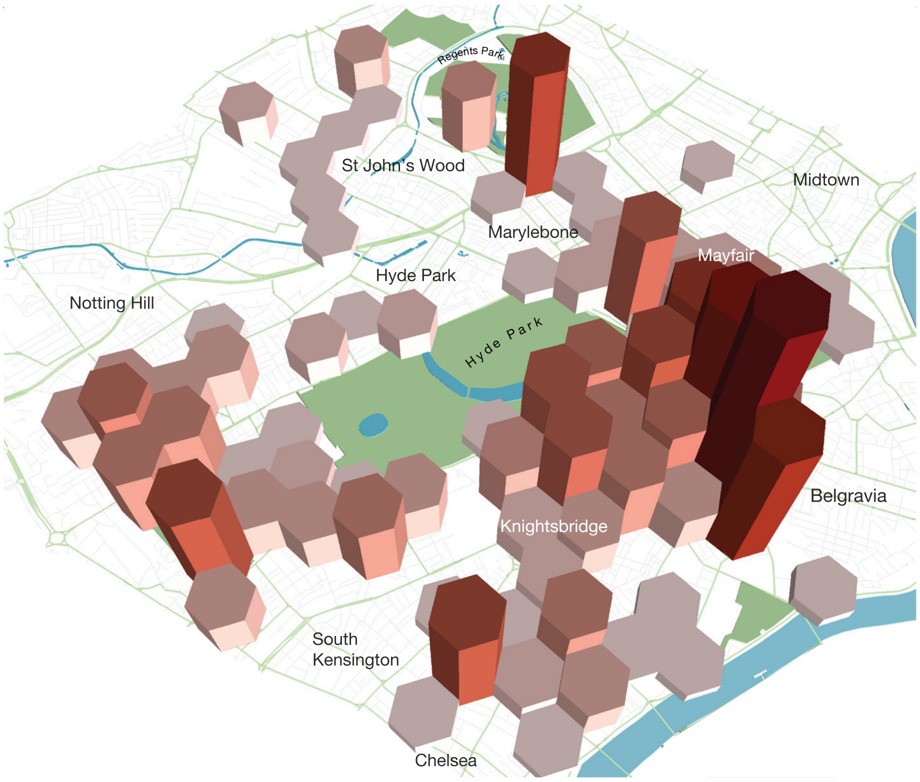
Source: Knight Frank Residential Research

FIGURE 2
Buyer nationality in super-prime London



Source: Knight Frank Residential Research

FIGURE 3
Sales of £10 million-plus properties in London by area since 2013



months to the end of April compared to the previous year.

While economic conditions are more benign, the political backdrop has become more unpredictable.

In the UK, a series of tax changes for residential property have been announced. While individual changes will not generally deter buyers at the super-prime level, they lead to a mood of uncertainty and rising political rhetoric that is likely to dampen price growth in the run up to the UK general election in May 2015.

At the same time, instability in emerging markets, triggered by events such as the conflict in Ukraine or China's economic slowdown, could spark a second wave of 'safe haven' capital into the super-prime London market and put upwards pressure on prices.

What buyers of all nationalities have in common is less loyalty to the 'golden postcodes' of Mayfair, Knightsbridge and Belgravia.

In 2013, 51% of super-prime deals were in one of those three districts compared to 26% so far in 2014.

Areas such as Marylebone and Hyde Park are becoming firmly established on London's super-prime map as buyers seek more square feet for their money and developers increasingly provide the type of ultra-luxury accommodation they demand north of Hyde Park and in other areas of London.

Buyers are also more willing than ever to pay a premium for flats over houses. The average price for a super-prime flat is £3,460 per square foot compared to £2,545 for houses.

"There is no doubt the market is becoming more product-led," said Richard Cutt of Knight Frank's Prime Central London team. "Both overseas and UK buyers know what they want, whether it is a large lateral penthouse apartment or a substantial detached family house and are now prepared to look outside the "golden postcodes" to find a property that fits their criteria."

A Sunday Times report this month underlined how strong London's appeal remains despite the changing political and economic background. London is home to more billionaires than any other city in the world, which underlines how the less tangible selling points of culture, heritage, rule of law and the British education system are as relevant as ever.

THE PRIME CENTRAL LONDON TEAM
Tim Wright and Richard Cutt launched Knight Frank's Prime Residential Team, which focuses purely on the property requirements of high net worth individuals in the super-prime (£10m+) market. Tim and Richard, who are both equity partners at Knight Frank, jointly have nearly 50 years unrivalled experience in the prime central London market.

UNRIVALLED EXPERIENCE

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