SUPER-PRIME LONDON INSIGHT

SUMMER | 2015

Vendors who expected a price bounce after the general election are having to come to terms with the fact that super-prime buyers are becoming more price-sensitive, as Tim Wright, Richard Cutt and Daniel Daggers explain to Tom Bill

As the post-general election hype and predictions of an immediate 10% jump in values subside, buyers and sellers in the super-prime £10 million-plus price bracket are digesting a change that was overshadowed by the clamour surrounding the 'mansion tax'.

While the 'mansion tax' has fallen from the political agenda, December's increase in stamp duty for properties worth more than £1.1 million means the transaction tax on a £10 million property has risen to £1.1 million from £700,000, a difference equivalent to 4% of the sale price.

Despite this increase, the election of a majority Conservative government caused some sellers to anticipate a short-term spike in prices, which failed to materialise.

"Nobody assimilated the stamp duty changes while the election was on the agenda," said Richard Cutt. "Meanwhile, those who expected the market to strengthen after the election are realising that it is still finely-balanced, sensible pricing being the key."

While reality has begun to set in with some vendors, it will be telling to see what impact the changes have on overall stamp duty revenues when the figures are released later this year.

Despite the fact Knight Frank super-prime sales rose by a quarter in the year to 30 June 2015, a series of factors including political uncertainty and the new stamp duty rates meant volumes across the whole super-prime market shrank by a fifth.

Furthermore, price growth at the £10 million-plus level has underperformed the prime central London average, growing 4% in the two years to June versus 10.3% in prime central London.

Further changes in July's Budget ended the permanent status for non-dom residents and widened the inheritance tax net to property held offshore. It comes on top of a succession of tax changes in recent years that make it increasingly difficult to argue that high-value residential property is under-taxed.

"It's too early to detect a discernible impact on sentiment at this stage, though there may be a marginal effect further down the line" said Tim Wright in relation to the non-dom change.

Meanwhile, a new trend is emerging among super-prime buyers as they become increasingly driven by the quality of a property and the level of amenities, including a 24-hour concierge service, secure parking and leisure facilities.

After exceptionally strong price growth in the so-called 'golden postcodes' during the financial crisis, buyers are looking further afield for value in a high-quality super-prime London pipeline.

The map in figure 1, which is adjusted for house price inflation, shows how the area covered by £10 million-plus sales in London in the year to 30 June 2015 is wider than three years ago and now encompasses areas like the Southbank.

"A number of best-in-class developments are coming through and, crucially, achieving critical mass in areas perhaps not considered super-prime in the past," said Richard.

As well as casting the net further, super-prime buyers are getting younger.

Some 18% of buyers were under 40 in the year to 30 June 2015 compared to 10.7% in the preceding 12-month period. Furthermore, the number of super-prime buyers in their 30's more than doubled to 14.8% from 7.1% over the

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Prime Central London Team

Tim Wright and Richard Cutt launched Knight Frank's Prime Central London Team in 2012. Both proprietary partners, Tim and Richard have nearly 50 years unrivalled experience between them in the prime central London market. In May 2015 the team expanded when Daniel Daggers joined from the St John's Wood office. Daniel, a partner, is one of Knight Frank's most talented and successful deal makers. The Prime Central London Team is based at Knight Frank's global headquarters in Baker Street and purely focuses on the property requirements of ultra-high net worth individuals in the super-prime (£10 million-plus) market.

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same period, as figure 3 shows.

"We're seeing more young buyers who have made their money in tech and IT," said Daniel Daggers. "In addition we find that decisions are increasingly being entrusted to the younger generations of families who are often those occupying the property." said Daniel Daggers.

The percentage of UK buyers above £10 million continued to grow as the country's economic recovery gathered pace. As figure 2 shows, UK buyers rose to 37% in the year to 30 June from 34% the previous year.

The breakdown also shows that London retains its appeal as a safe-haven property market. The number of Middle East buyers rose to 16% from 11% and as demand rises on the back of geo-political instability in certain areas of the region.

Furthermore, recent events in Greece and the Chinese stock market show how economic uncertainty can swiftly boost demand for so-called 'safe-haven' assets like government bonds and property.

There is anecdotal evidence Chinese buyers have intensified their interest in established global property markets including London as a result of the recent stock market volatility.

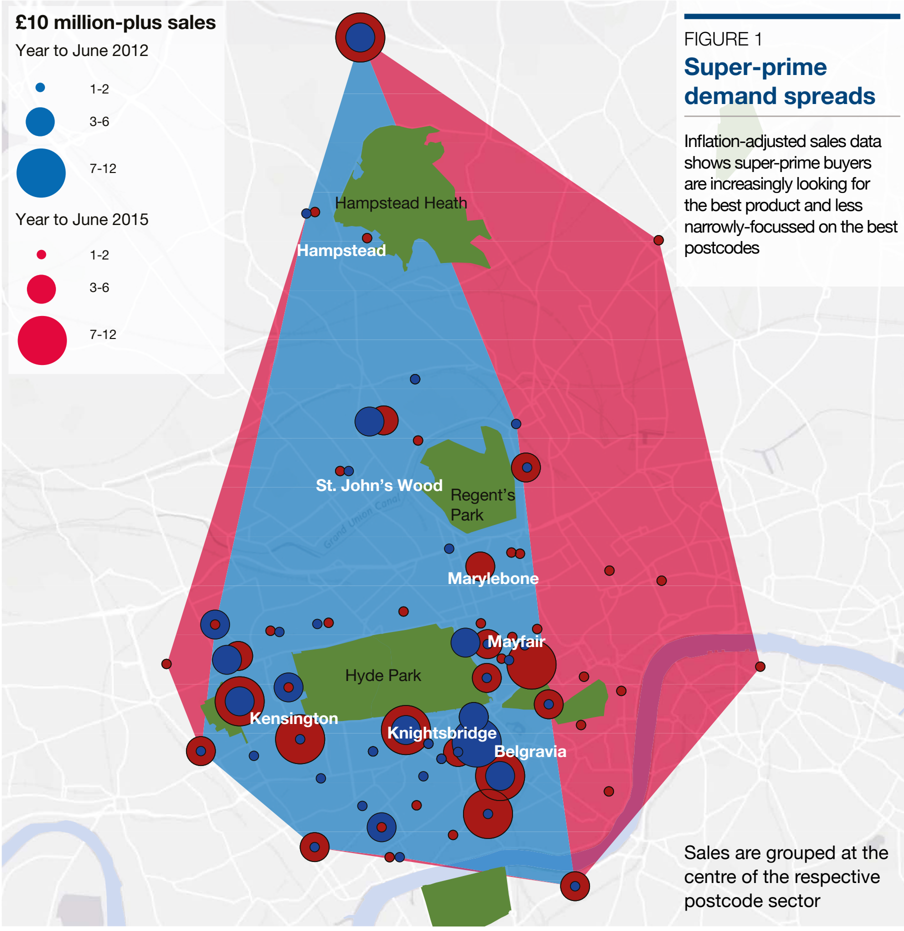


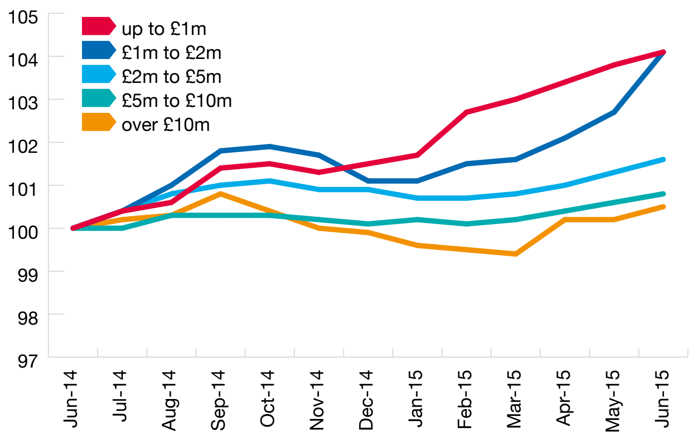
FIGURE 1
Super-prime demand spreads

Inflation-adjusted sales data shows super-prime buyers are increasingly looking for the best product and less narrowly-focussed on the best postcodes

Sales are grouped at the centre of the respective postcode sector

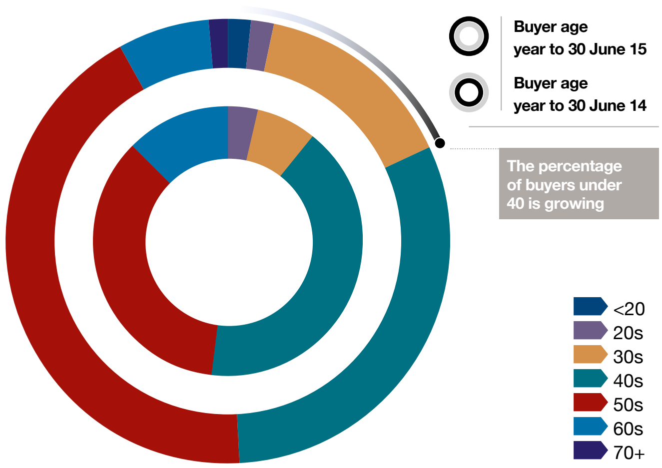
FIGURE 2
Price growth in prime central London by price bracket

(Re-based to 100)



Source: Knight Frank Residential Research

FIGURE 3
Super-prime buyers get younger



Source: Knight Frank Residential Research

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