RESIDENTIAL RESEARCH

Knight Frank

SUPER-PRIME INSIGHT

2017

SUPER-PRIME MARKET INSIGHT

Welcome to the latest edition of the Knight Frank Super-Prime Insight. In this report we have assembled the latest data covering the £10m+ residential sales market in London, highlighting where activity is taking place, as well as how the market is performing in the post-election and pre-Brexit period.

While super-prime sales activity is down from the very strong levels seen in 2013 and 2014, sales volumes have stabilised since mid-2016, when uncertainty caused by June's referendum vote coincided with the period following the introduction of the Additional Rate of Stamp Duty in April.

Sales volumes were 2% higher in the first six months of this year than 2016 and by value the increase was 10%.

There was also a notable increase in activity above £30 million. By volume and value, this price bracket accounted for a larger slice of the market in the previous two years, as figures 4 and 5 show.

The trend for super-prime sales to spread to a wider range of locations has also continued. Once a feature of a relatively tightly-defined area, centred on Mayfair and Knightsbridge, super-prime sales are now increasingly evident well away from these traditional hubs.

The map and chart on this page illustrate this spread in activity. In north London, for example, both NW1 and NW3 have witnessed a marked growth in activity in terms of the value of super-prime sales. In an example of the wider importance of new-build developments in driving demand, sales in Mayfair have expanded away from the Mount Street core.

In similar fashion to the wider prime central London market, price growth above £10 million have slowed since 2014.

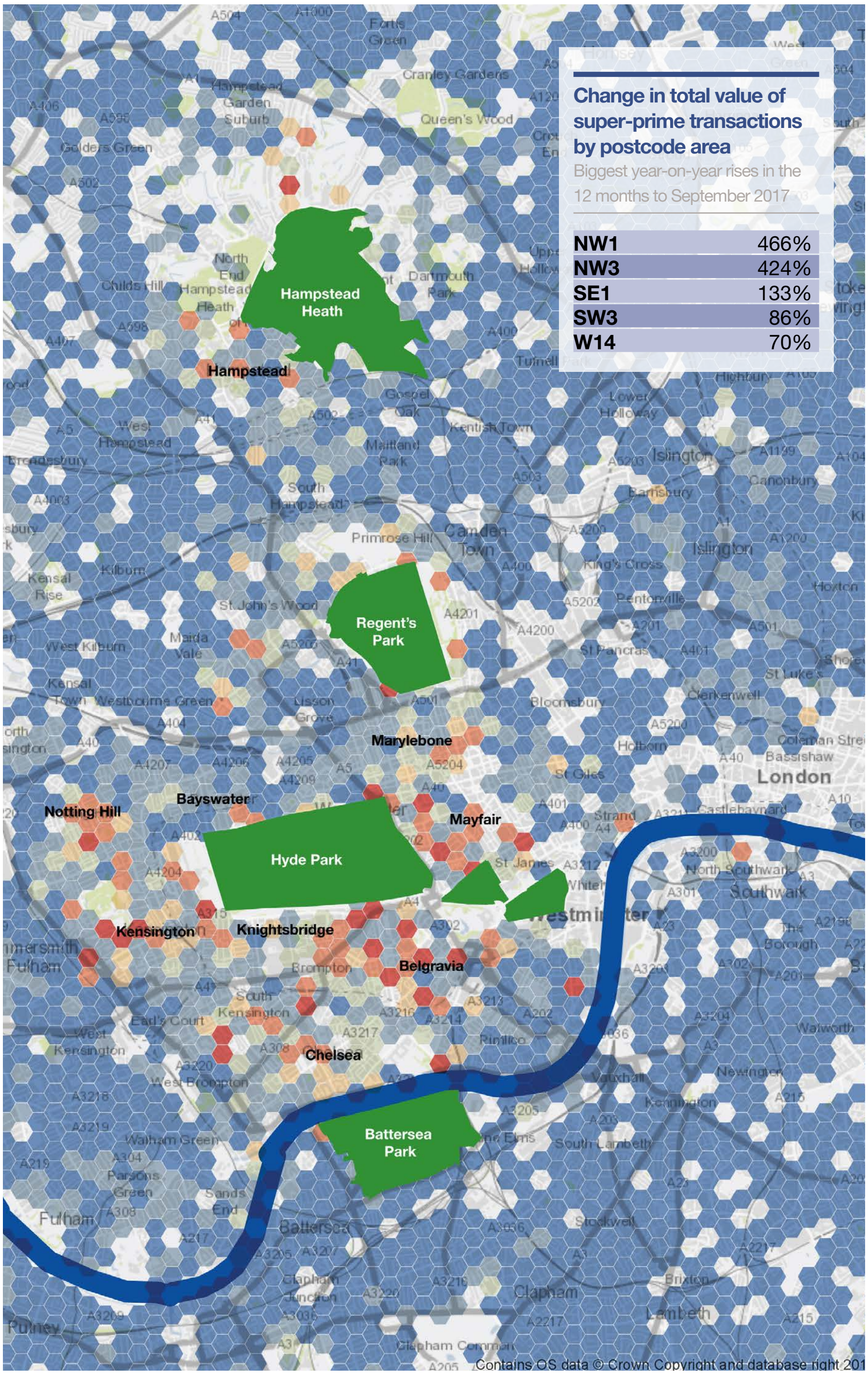
However, there is evidence the market is moving towards recovery mode.

Average prices for properties worth more than £10 million declined by 2.8% in the year to October, which was an improvement on a decrease of 7% recorded in February this year. It was also stronger than the 4.8% decline registered in October for homes priced at between £1 million and £2 million.

FIGURE 1

Super-prime map of London Maximum sale price in the year to 30 September 2017

- Sub £2,000,000
- £2,000,000 to £5,000,000
- £5,000,000 to £7,500,000
- £7,500,000 to £10,000,000
- £10,000,000 to £20,000,000
- £20,000,000+



Source: Knight Frank Research

2017 REVIEW

AGENT PERSPECTIVE

With the third quarter of 2017 now completed, we have spoken to a range of Knight Frank's agents active in the super-prime market to obtain their perspective on market activity to date and to consider what the next 12 months may bring.

Global factors

The London market has faced considerable economic and political challenges, many of which remain in place.

"Though London has had a tough time recently, it is seeing renewed vigour. The effective discount provided by a weaker pound has certainly helped some buyers seeking value. There is a continued focus on safe haven investments for the long term with increasing focus on income generation and longer-term returns. Although political risk remains with us, economic fundamentals underpinning the market remain strong, with interest rates at an all-time low and global economic growth slowly improving."

Paddy Dring, International Residential and Super-Prime

Buyer demand is rising but remains price-sensitive

One common refrain is that there appears to have been a definite uptick in enquiries from prospective buyers, which is feeding into sales. However, these buyers remain hesitant.

"Those buyers making commitments have either been in the market for a while or have a pressing social or personal need to move. So there is a ticking clock for many of them which, together with the price declines and favourable currency movement, means they are deciding to act".

Daniel Daggers, Super-Prime Team

Markets have re-priced

Increased transaction costs associated with the introduction of the Additional Rate of Stamp Duty weighed on market activity in 2016. This led to a pricing adjustment in the second half of last year, meaning pricing expectations have gradually been realigned.

"There is a feeling the market has now found its level and consequently there has been an encouraging number of new sales in 2017, particularly in the higher specification developments."

Ian Pidgeon, Prime New Homes

"Although political risk remains with us, economic fundamentals underpinning the market remain strong.

Transaction levels will pick up as interest rates normalise

Ultra-low interest rates mean there has been minimal financial incentive for some vendors to sell, a scenario that will change as rates normalise:

"Many sellers don't feel any financial compulsion to act while interest rates are so low. This lack of urgency means asking prices don't always take market comparables into account."

Harvey Cyzer, Mayfair Office

As demand changes so do requirements

The London super-prime buyer base is extremely diverse, with British, European, Middle Eastern, North American and more recently Chinese buyers seeking property as both homes and as investments. While the range of nationalities active in the market has remained as wide as ever, there has been a definite shift in the source of wealth away from the financial sector and towards more tech and entrepreneurial sources:

"As the source of wealth shifts, so do the desired locations for purchases. As more younger buyers from new wealth sectors appear in the market, we are being asked to provide properties further east into Fitzrovia, mid town and towards the city."

Charles Penny, Super-Prime Team

Russian demand has recovered

Russian buyers, once the dominant force in the super-prime London market, have seen a small resurgence in the past six months.

"The reality is that London never lost its reputation as a target market for Russian buyers, but economic conditions in Russia over the past three or four years have unsurprisingly reduced demand. An uptick in the Russian economy and the weaker pound has led to a 26% increase in active Russian buyers in June this year compared to the same month last year."

Katya Zenkovich, Knight Frank Russia Desk

2017 REVIEW

AGENT PERSPECTIVE

New-build property will continue to shape the market

The growth of the super-prime development pipeline over recent years is set to continue.

"The future growth in the London market will likely be product-led, through super prime new-build schemes. These sorts of properties fulfil the aspirations of what is typically newer and younger wealth, which is the fusion between a design-led hotel and a residential property. There is still demand for the best one-off developments in period properties but the real focus remains on those schemes that provide a high-quality of amenity, privacy and service."

Rupert des Forges, Residential Development

Vendors have become more flexible following the general election in June

Despite the fact sellers are typically more discretionary in the super-prime price bracket, asking prices increasingly reflect fiscal and political uncertainty.

"Super-prime sellers have shown flexibility around asking prices as taxes like stamp duty have risen in recent years, and this has picked up following the general election in June. In many cases, asking price reductions are long overdue, which will help liquidity in a market where perception of value is so important."

Noel Flint, London Residential

Political instability in the UK is a relative concept

While Brexit and political uncertainty in the UK is dampening demand to some degree, events in other parts of the world put this into perspective.

"Despite everything that is going on in the UK, money is still coming in. The safe haven effect is alive and well. When you look at some of the instability and conflict in other other parts of the world it makes you realise the UK's problems are relatively small by comparison. Capital controls are often the only reason more money doesn't come in."

Alasdair Pritchard, International Residential

Some buyers prefer the periphery of London

While London has a host of obvious attractions, family concerns can mean that buyers are drawn to properties within 45 minutes of the capital.

"The obvious advantage of being just outside London is that you have access to some of the best polo, golf and country clubs in the world within less than an hour of London. Education is also a major driver and many buyers simply want to bring their children up in the country. The key area is to the the west and south-west of London, an area that benefits from good infrastructure, airfields and a feeling of security."

Stuart Cole, Country Department

UK political uncertainty has had a modest impact beyond Europe

Brexit and the general election have dominated the headlines in the UK but the long-term appeal of London remains strong around the world.

"While some European buyers have become more hesitant due to the current political uncertainty in the UK, this tends to affect buyers from other parts of the world far less, who take a more phlegmatic view and see beyond issues like Brexit, boosted by a favourable exchange rate."

Stuart Bailey, Belgravia Office

Don't overlook traditional demand drivers

Traditional drivers of demand have come to the fore as political and economic uncertainty have risen.

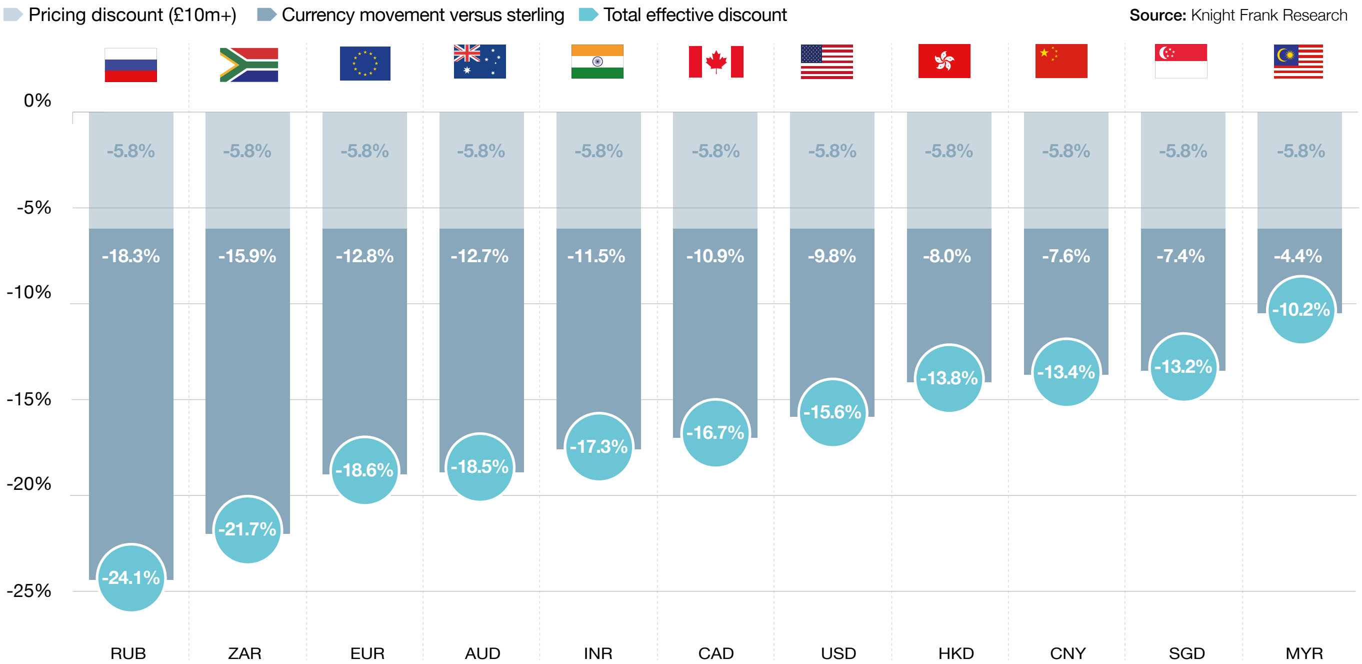
"It is a cliché but education and culture still play a massively important role for super prime buyers in London. With everything else going on, it's easy to forget that people still want to study here, go to Wimbledon and Ascot and love the social scene. There is also a strong creative aspect to living in London, demonstrated by some of the recent deals by tech companies."

Sami Robertson, Kensington Office

> " There is still demand for the best one-off developments in period properties but the real focus remains on those schemes that provide a high-quality of amenity, privacy and service.

FIGURE 2

The currency effect How far the effective cost of a £10 million property fell between 22 June 2016 (pre-EU referendum) and 30 September 2017

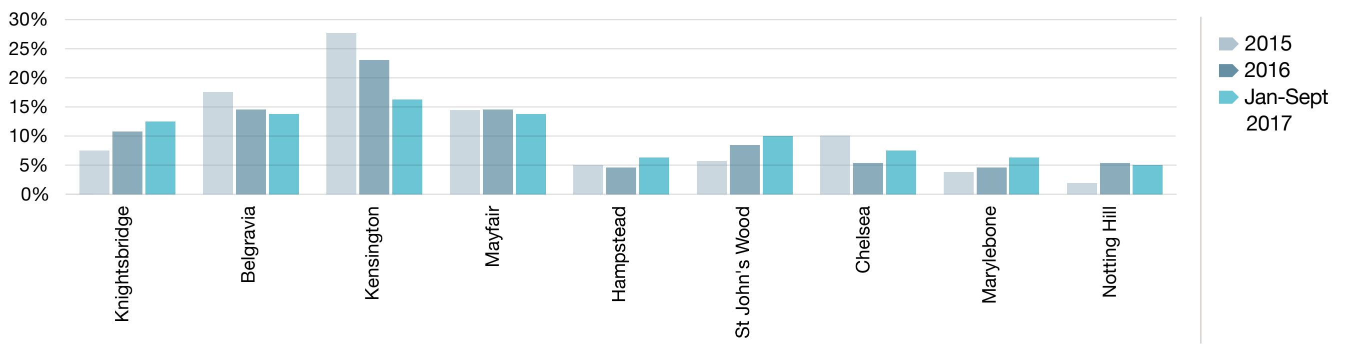


Source: Knight Frank Research

FIGURE 3

The location of super prime sales

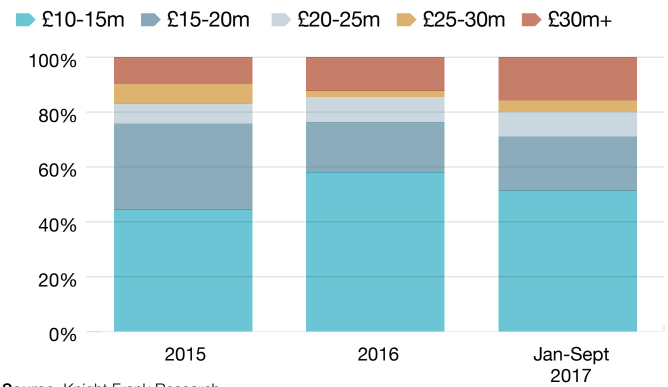
£10 million-plus sales by area



Source: Knight Frank Research

FIGURE 4

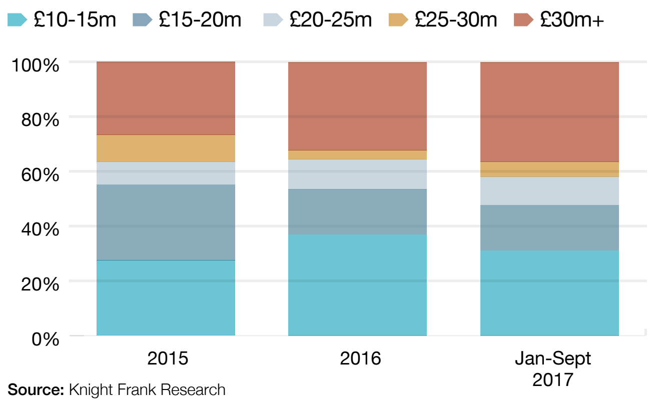
Value of super prime sales by price band



Source: Knight Frank Research

FIGURE 5

Volume of super prime sales by price band



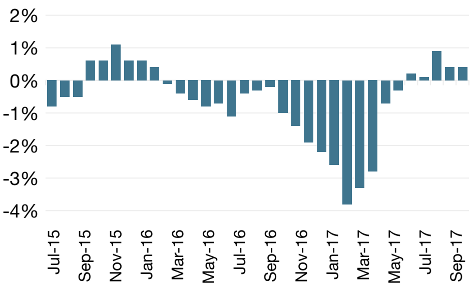
Source: Knight Frank Research

FIGURE 6

Pricing in London's super prime market has stabilised

Quarterly growth above £10 million in prime central London (%)

The Knight Frank Super Prime Index shows price growth trended downwards from November 2015, driven by the introduction of the reformed stamp duty rate. **Since the start of 2017 pricing has stabilised and turned positive as the market increasingly absorbs higher transaction costs.**

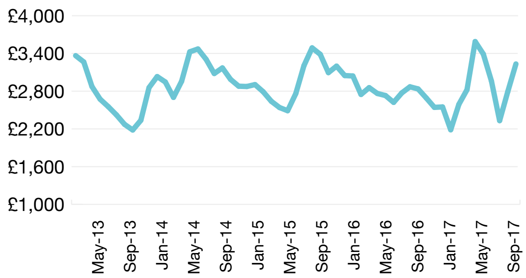


Source: Knight Frank Research

FIGURE 7

Average £/PSF values on the rise in 2017

£/PSF for the super prime market **trended downwards from August 2015.** It bottomed out in January 2017 and has since ticked up.



Source: Knight Frank Research

RESIDENTIAL RESEARCH

Liam Bailey
Global Head of Research
+44 20 7861 5133
liam.bailey@knightfrank.com

Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

Claire Williams
Senior Research Analyst
+44 20 3897 0036
claire.williams@knightfrank.com

SUPER PRIME SALES

Paddy Dring
Head of International Sales and Super Prime
+44 20 7861 1061
paddy.dring@knightfrank.com

Daniel Daggers
Super Prime London Sales
+44 20 7861 1758
daniel.daggers@knightfrank.com

Charles Penny
Super Prime London Sales
+44 20 7861 5345
charles.penny@knightfrank.com

Ian Pidgeon
Prime New Homes
+44 20 7861 1302
ian.pidgeon@knightfrank.com

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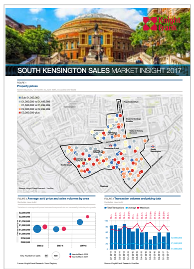
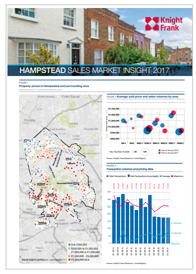
London Super Prime Lettings


Prime Central London Sales Index September 2017

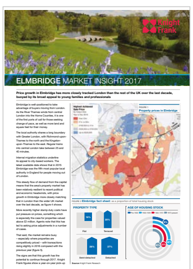

Prime Central London Lettings Index September 2017


South Kensington Market Insight


Hampstead Market Insight


Prime Country House Index


Home Counties Super Prime Lettings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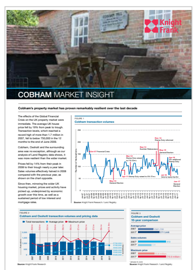
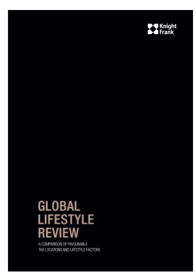

Cobham Market Insight


Wealth Report 2017


Global Lifestyle Report