

RESIDENTIAL RESEARCH



SUPER-PRIME INSIGHT

2018



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 with less than a year to go until Brexit.

Activity levels in the super-prime (£10 million-plus) London market have stabilised compared to recent years.

Trading volumes have been underpinned in many cases by the release of pent-up demand, which formed following a series of tax changes to high-value residential property.

As a result, the number of new prospective super-prime buyers registering in the first three months of 2018 was 7% higher than last year.

Although the number of transactions in the year to March was 9% lower than a figure of 126 recorded over the previous 12 months, this is an improvement compared to annual falls of more than 20% registered throughout 2016 and the first half of 2017.

This stabilisation follows a period of inaction that for some buyers stretches back several years. Anecdotal evidence suggests those with a stronger incentive to buy, in many cases related to family or educational requirements and those coming out of rental properties, are now doing so in greater numbers.

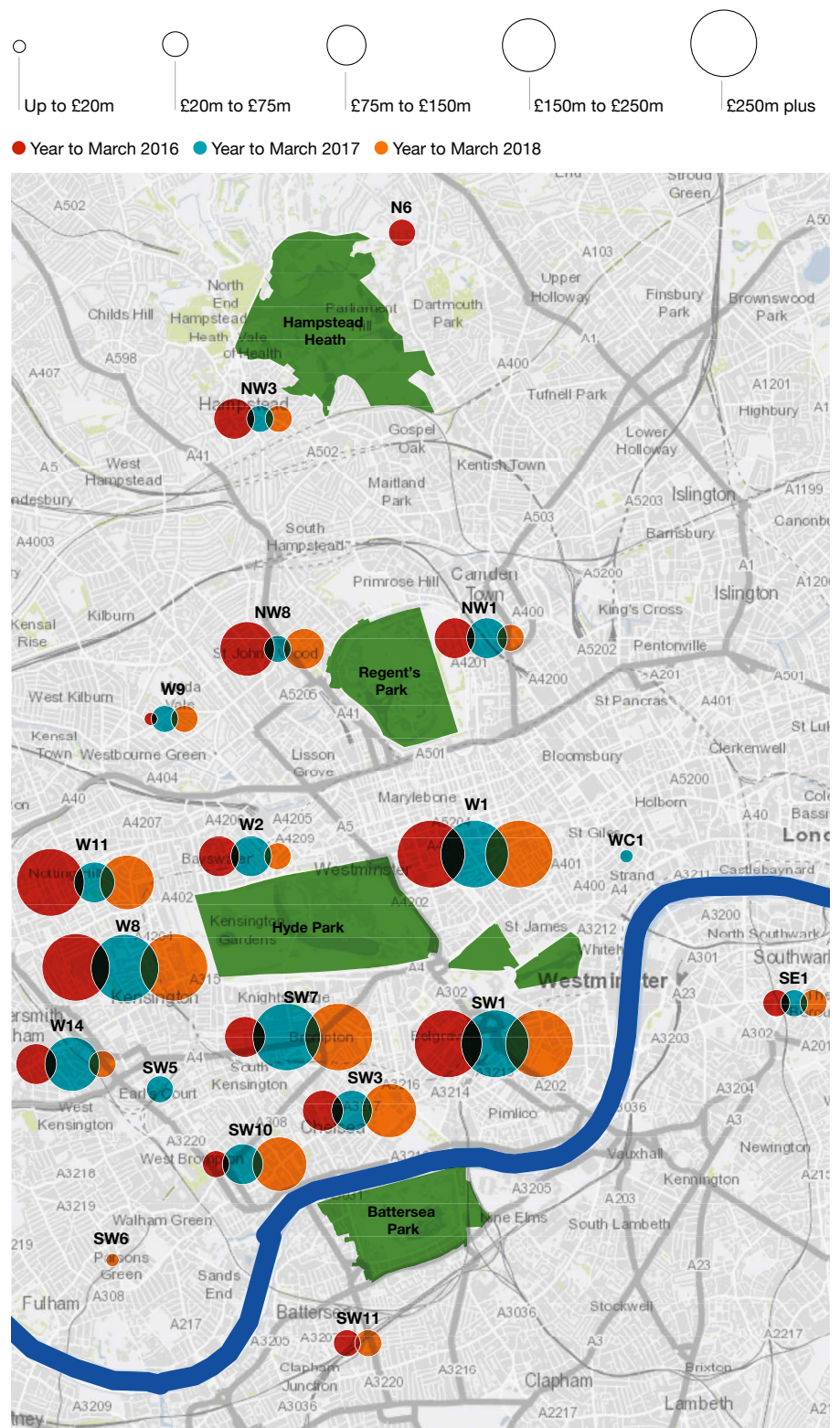
This has been facilitated by asking price reductions as vendors price in higher rates of stamp duty. The average discount between the asking and the achieved price for super-prime properties in the first quarter of 2018 was 10%. This compared to 6% in 2016 and 4% in the same period in 2015.

The steepest price decline since the peak of the market in prime central London in August 2015 has been in Chelsea (SW3 and SW10), where a 15.5% fall took place between then and March 2018. Buyers have responded to the decline and the value of super-prime sales has risen as a result, as Figure 1 shows.

The effects of a weaker pound also continue to drive trading volumes, alongside the continued appeal of London. For example, buyers denominated in US dollars would have benefitted from an effective discount of 11% at the end of March compared to the period before the EU referendum, as figure 2 shows.

Despite the currency effect and the fact higher stamp duty has in many cases been priced in, we do not anticipate a material increase in sales volumes or pricing in the short-term due to political uncertainty surrounding Brexit and the domestic UK political landscape.

FIGURE 1
Super-prime map of London Total value of £10 million-plus sales by neighbourhood



Source: Knight Frank Research

2018 OUTLOOK

AGENT PERSPECTIVE

We have spoken to a range of Knight Frank's agents in the super-prime market to obtain their perspective on some of the key trends and what the remainder of 2018 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 improving.”

Paddy Dring, International Residential and Super-Prime



New-build supply is slowing

The supply of new-build super-prime properties in London has slowed in recent years. As such, buyers should factor a diminishing supply pipeline into their decision-making process.

“Buyers are increasingly looking for completed or near-completed schemes, which means supply is becoming more limited for super-prime new-build schemes. For those looking, it means sitting and waiting may not be the best policy.”

Ian Pidgeon, Prime Central London Developments



Buyer demand is rising but remains price-sensitive

There has been a definite uptick in enquiries from prospective buyers, which is feeding through into sales. However, some 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 now deciding to act. Buyers are less location-specific and new focal points include Fitzrovia and W2.”

Daniel Dagers, Prime Central London Team



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



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 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 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, Prime Central London Team



Growing demand among British buyers for family houses

Family houses in the Royal Borough of Kensington and Chelsea are in relatively strong demand at the start of 2018 among needs-driven buyers.

“While international investors are proceeding with more caution, British families committed to London are more comfortable buying given that pricing has largely adjusted for stamp duty. It means areas like Notting Hill have done very well at the start of 2018.”

Thomas van Straubensee, Head of Private Office



Russian demand is stable

Russian buyers have experienced economic and political uncertainty in recent years but the appeal of London remains.

“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 to four years have reduced demand to some extent. Political uncertainty remains a fact of life but the relative strength of the ruble against the pound over the last couple of years has supported demand.”

Katya Zenkovich, Knight Frank Russia Desk

2018 OUTLOOK

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 be product-led, through prime new-build developments. These schemes fulfil the aspirations of what are typically newer and younger buyers who want a fusion between a design-led hotel and a residential property. Demand for the best single-unit developments in period properties still exists but the wider focus remains on those schemes that provide a high-quality of amenity, privacy and service.”

Rupert des Forges, Prime Central London Developments



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 while you are still less than an hour from 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 west and south-west of London, which benefits from good infrastructure, airfields and a feeling of security.”

Stuart Cole, Country Department



Buyers are very astute and are scrutinizing the market for value

Higher levels of stamp duty are increasingly factored into pricing. However, political uncertainty in the UK means some are still cautious.

“More super-prime buyers have come to terms with stamp duty but because some have been looking for more than a year, they have become very knowledgeable and know where prices should be. However, the UK political situation, including Brexit, means there is still a mood of relative caution in the market.”

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 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



More comparable pricing evidence will drive liquidity

Vendor expectations will rebase as more sales take place at realistic prices

“Clarity on pricing in the super-prime market is a constant challenge but a growing number of vendors have realised that they won’t get yesterday’s prices. As more comparable evidence feeds through into the market from motivated vendors, it is giving buyers confidence to transact. This, in turn, will drive liquidity.”

Rory Penn, Head of Private 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.”

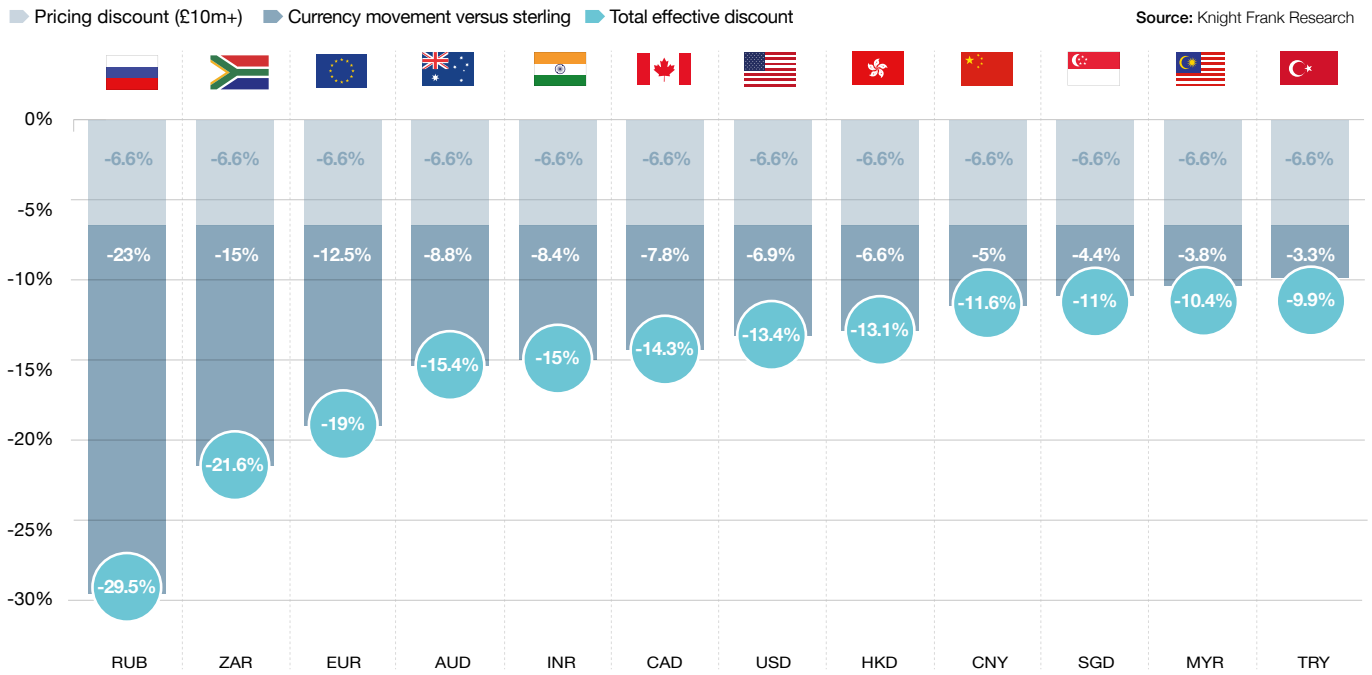
Sami Robertson, Kensington Office Head and Global Wealth Ambassador



Demand for the best single-unit developments in period properties still exists but the wider 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 31 March 2018

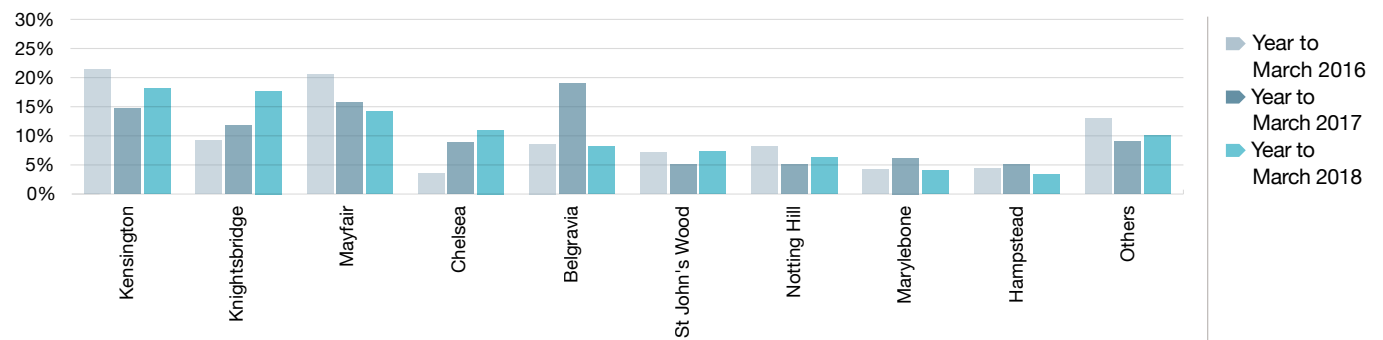


Source: Knight Frank Research

FIGURE 3

The location of super prime sales

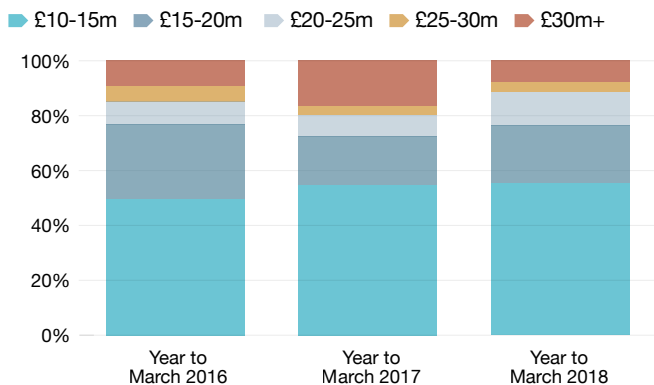
£10 million-plus sales by area



Source: Knight Frank Research

FIGURE 4

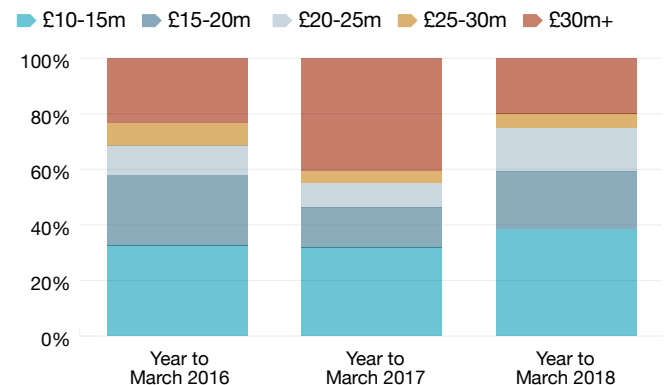
Value of super prime sales by price band



Source: Knight Frank Research

FIGURE 5

Volume of super prime sales by price band

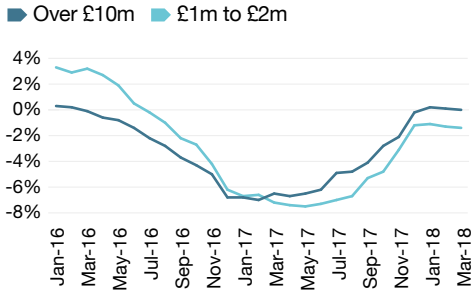


Source: Knight Frank Research

FIGURE 6

Pricing in the super-prime market bottoms out in prime central London

Pricing above £10million has strengthened versus lower-value price brackets. After initially slowing to a greater degree following stamp duty increases, pricing has bottomed out in response to stamp duty-related adjustments.

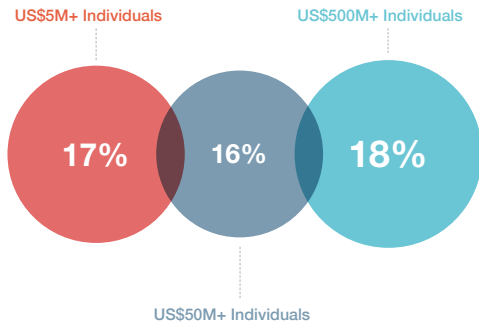


Source: Knight Frank Research

FIGURE 7

A rising number of wealthy individuals in the UK

The percentage change in the number of wealthy individuals in the UK between 2017 and 2022



Source: Knight Frank Research

SUPER-PRIME SALES

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London Review Spring 2018



London Super Prime Lettings



Prime Central London Sales Index April 2018



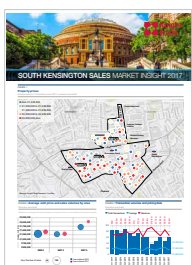
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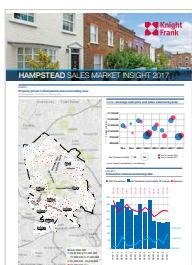
Belgravia Market Insight



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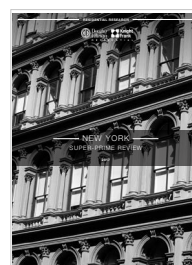
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