

*Windows of
opportunity in prime
London*

*Low levels of rental
property supply*

Five-year forecasts



London Residential Review

Q1 2020

knightfrank.com/research



PRIME LONDON SALES MARKET INSIGHT

While some political and economic uncertainties will persist in 2020, buyers may decide it could be advantageous to act sooner rather than later, as Tom Bill explains

There are early indications that the relative political certainty provided by last month's general election result is starting to boost activity in prime London markets.

Excluding the month before a pre-announced stamp duty increase in April 2016, the number of sales of existing homes in prime central London in December 2019 was the highest monthly total since April 2014.

Indeed, in the ten working days following the election, Knight Frank carried out more exchanges in PCL than during any ten-day period since December 2016.

Overall, the number of sales in prime London markets was 14% higher last year than in 2018 and the highest annual total since 2014.

The reasons for this uptick include the relatively benign global economic backdrop, ultra-low mortgage rates, the currency discount and the fact prime residential markets have re-priced in response to political uncertainty and tax changes.

The average discount in the so-called golden postcodes of Belgravia, Knightsbridge and Mayfair in 2019

compared to the five-year average was £150 per square foot for existing homes.

However, the impact of some of these demand drivers will be more short-lived than others, potentially creating an incentive for buyers and sellers to act in the short-term.

A stable government means political uncertainty may lift to some extent in 2020, which could see interest rates begin to normalise and the currency discount start to erode.

Furthermore, a global economic recession is due, although there are questions over its severity and whether the US will act to avoid it taking place before the Presidential elections in November this year.

Meanwhile, the government has indicated it will alter stamp duty rules for non-resident buyers, which may encourage some overseas buyers to act.

The extent of the pent-up demand that has built over 2019 could also inject more urgency into the market. In the final quarter of last year, there were 10 new buyers for every new property listed in prime central and outer London, the highest ratio in more than 15 years.

NOTED

14%

The increase in the number of exchanges in prime central London in 2019 versus 2018, resulting in the highest total in five years

£150 psf

The average discount in 2019 compared to the five-year average in Belgravia, Knightsbridge and Mayfair for existing homes

10:1

The ratio of new prospective buyers to new property listings in PCL and POL in Q4 2019, the highest figure in more than 15 years



"in the ten working days following the election, Knight Frank carried out more exchanges in PCL than during any ten-day period since December 2016."



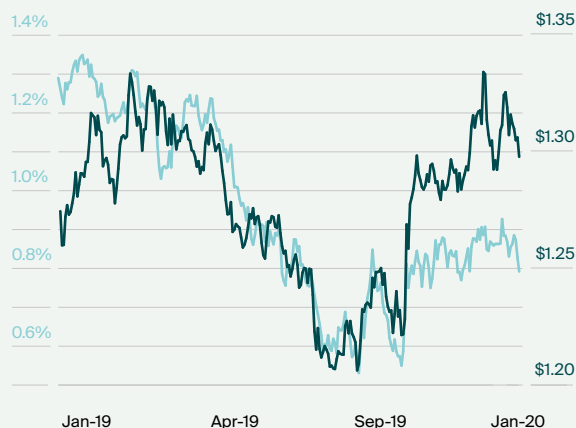
TOM BILL

HEAD OF LONDON RESIDENTIAL RESEARCH

1 Windows of opportunity for buyers may start to close

The recent uptick in the five-year swap rate and the dollar exchange rate

■ UK five-year swap rate ■ £/US\$

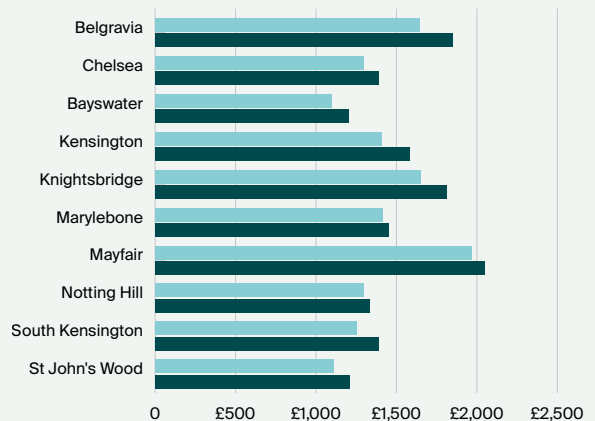


Source: Knight Frank Research

2 The PCL market has re-priced

Average psf values in 2019 compared to the five-year average, excluding new-build

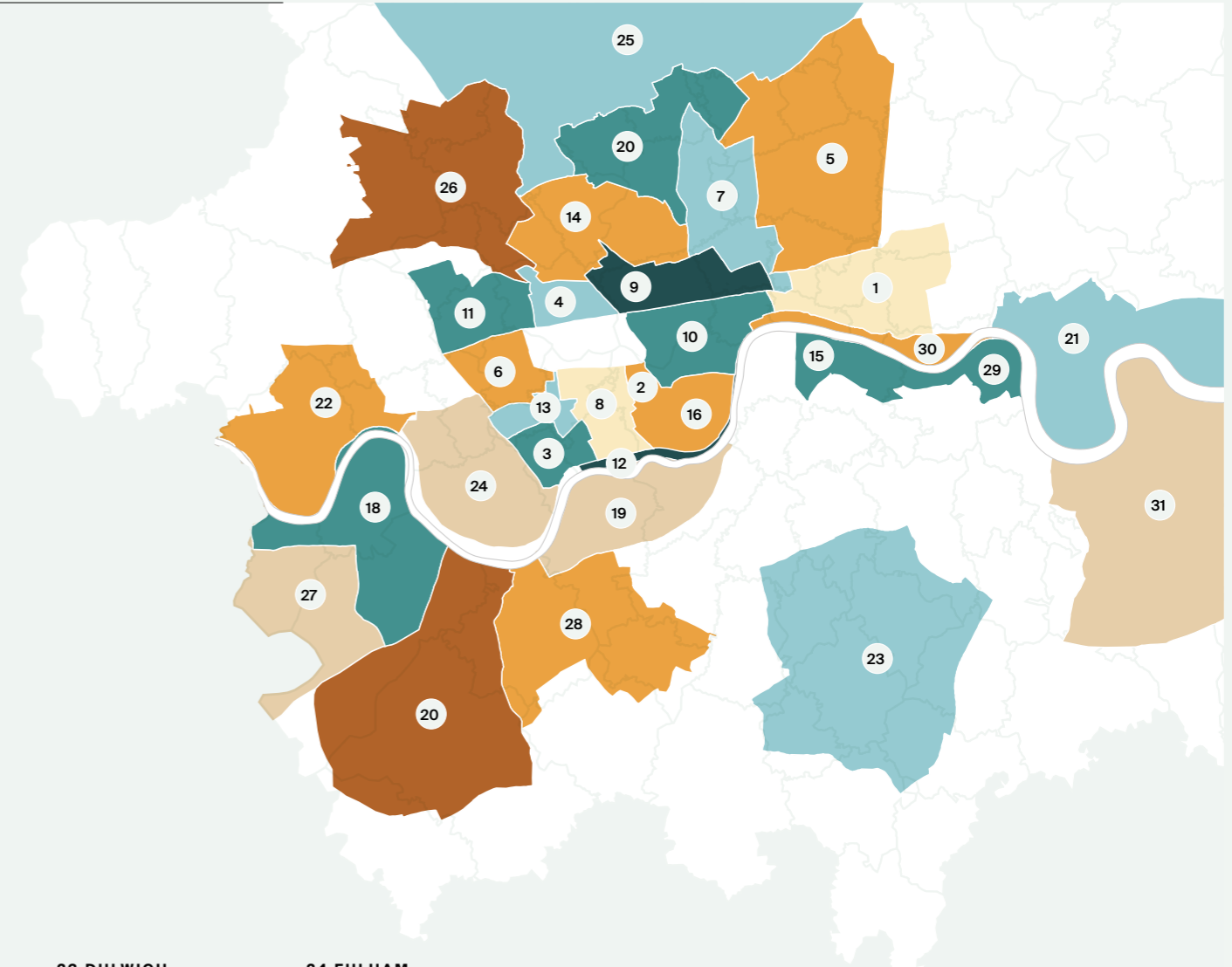
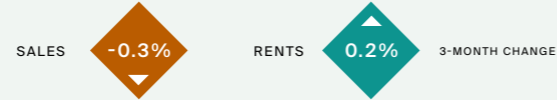
■ 2019 ■ Five-year average



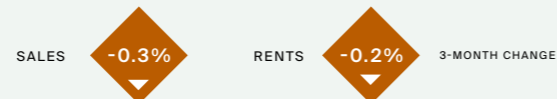
Source: Knight Frank Research

PRIME LONDON PRICE AND RENTAL GROWTH, SEPTEMBER 2019

PRIME CENTRAL LONDON



PRIME OUTER LONDON



PRIME LONDON LETTINGS MARKET INSIGHT

Downwards pressure on supply is likely to produce stronger rental value growth in prime London markets, as Tom Bill explains

The trends that influenced the prime London lettings market in the final months of 2019 are set to intensify during 2020.

Most notably, it is likely that supply levels will continue to remain low in response to higher levels of activity in the sales market.

There were 14% fewer new lettings listings in prime outer London in 2019 compared to the previous year, while the decline in prime central London was 8%.

Following the general election result, a growing number of owners are likely to capitalise on an anticipated 'bounce' in the market and attempt to sell.

Should sales market activity pick up and house price inflation return, tenant demand is likely to rise in response due to increased affordability pressures. These same pressures are part of the reason the number of new prospective tenants in London in 2019 was 25% higher than in 2018.

The result will be even more upwards pressure on rents. Average rental values in prime central London rose 0.7% in 2019, and Knight Frank

forecasts an average 2% rise every year until the next scheduled election in 2024, producing cumulative rental value growth of 10%. In prime outer London, the forecast is for 11% growth over the same period.

The new government has indicated it will increase stamp duty for overseas buyers, underlining how housing remains a sensitive political issue as it looks to redress perceived socio-economic imbalances across the UK. This political approach makes any reversal of recent tax changes for buy-to-let investors unlikely, maintaining further downwards pressure on supply and upwards pressure on rental values.

Another trend that may accelerate in 2020 is higher activity between £1,000 and £5,000 per week. Demand in this price bracket has historically come from senior executives in sectors including financial services, which will be underpinned as Brexit uncertainty lifts.

The number of tenancies agreed in PCL in this price bracket increased 2% in 2019 after a 7% decline in 2018, LonRes data shows.

NOTED

14%

Decrease in the number of new lettings in prime outer London in 2019 compared to 2018

25%

The rise in the number of new prospective tenants in 2019 in PCL and POL

10%

The forecast cumulative rise in rental values in PCL in the five years to 2024

2%

The increase in the number of tenancies agreed between £1,000 and £5,000 per week in 2019 compared to 2018



"It is likely that supply levels will continue to remain low in response to higher levels of activity in the sales market."



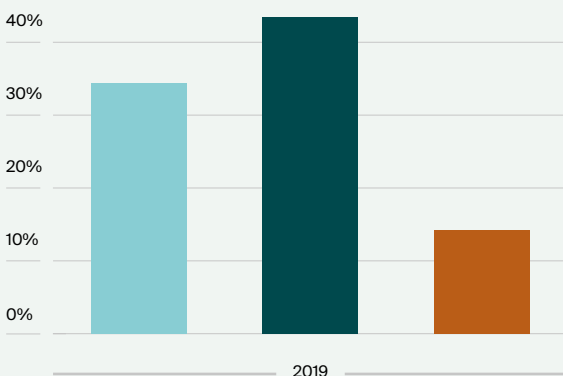
TOM BILL

HEAD OF LONDON RESIDENTIAL RESEARCH

3 Lettings activity strengthens in 2019

Annual % change, 2019 versus 2018

■ New prospective tenants ■ Tenancies agreed ■ Viewings

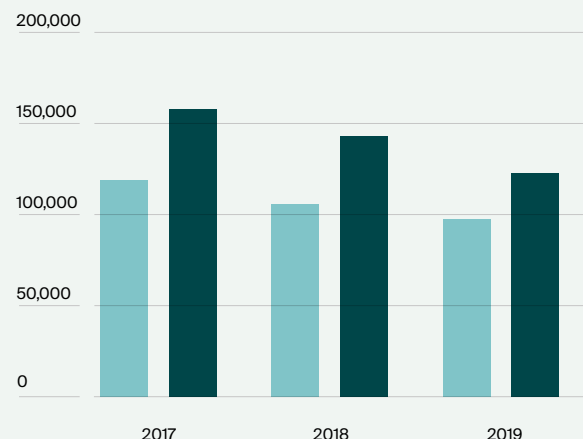


Source: Knight Frank Research

4 Shrinking new supply puts upwards pressure on rents

Annual number of new lettings listings

■ Prime central London ■ Prime outer London



Source: Knight Frank Research / Rightmove

PRIME LONDON IN NUMBERS

18.5%

Knights Frank's forecast cumulative price growth in prime central London in the five years to 2024. While some of the pent-up demand that has built will be released, the potential erosion of the currency discount as well as the possibility of stamp duty changes for non-residents will weigh on demand in the short-term. After that, we expect stronger growth to return before a dip in 2024, the year of the next scheduled General Election.

\$591 MILLION

The total value of \$25 million-plus transactions on Grosvenor Square between 2015 and June 2019. Grosvenor Square was fifth in a Knight Frank analysis of global streets led by 57th Street in New York. "Surrounded by the very best restaurants, clubs and retail, Grosvenor Square has reshaped London's ultra-prime residential market and contributed to the re-emergence of Mayfair as one of the top residential destinations globally," said Rupert des Forges, Head of Prime Central London Development at Knight Frank.

0.8%

The five-year swap rate in mid-January. The rate is used by lenders to set the price for five-year fixed rate mortgages and has climbed from a recent low-point of 0.5% in September last year as uncertainty over a no-deal Brexit recedes to some extent. Borrowing costs will rise should political and economic uncertainty lift further, which may prompt some to bring forward property-related decisions.

Please get in touch with us

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.



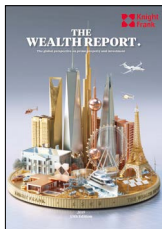
Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com



Tim Hyatt
Head of London Residential
+44 20 7861 5044
tim.hyatt@knightfrank.com

Recent Publications

The Wealth Report 2019



UK Residential Market Forecast 2020-2024



Prime London Sales Index December 2019



Prime Country House Index Q4 2019



Prime Global Forecast 2020



Knights Frank Research Reports are available at knightfrank.com/research



Knights Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: © Knight Frank LLP 2020 This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.