CHELSEA MARKET INSIGHT 2016

Chelsea is moving back into the spotlight thanks to a narrowing price gap with other London markets, improving infrastructure and a resurgent UK economy, says Tom Bill

The fortunes of the prime residential market in Chelsea are more closely linked to the UK economy, in particular the financial services sector, than most areas of London.

While prices in prime central London grew 212% between 1997 and 2007, a period that coincided with a strong UK economy, Chelsea outperformed the market with 223% growth and was a popular address for workers in the expanding financial sector.

Subsequently, prime central London prices rose 69% between 2009 and 2015 as the area cemented its global reputation as a safe haven following the financial crash. This time, growth in Chelsea underperformed the average and an increase of 58% reflected a more restrained mood in the financial sector despite the fact that the area was a popular destination for Italian and French buyers due to economic instability in the euro zone.

Bonus season typically drove transactions in this upmarket London neighbourhood located between Knightsbridge and Fulham but sales volumes halved between 1997 and 2014 in the SW3 and SW10 postcode areas, compared to a smaller decline of -31% in prime central London.

This decline in activity is also the result of changing demand. Chelsea, particularly the western section, is predominantly a house market, meaning price growth has not matched more central areas like Knightsbridge and Mayfair, where demand has been driven by buyers looking for high-quality new-build or newly-refurbished apartments.

Indeed, in the five years to December 2015, flat prices in prime central London rose 44% compared to 30% for houses.

The decline in sales volumes has been more marked in higher price brackets and in the £10 million-plus super-prime market, Chelsea accounted for 3% of all London deals in 2015, down from 10% in 2012.

FIGURE 1
Chelsea house prices

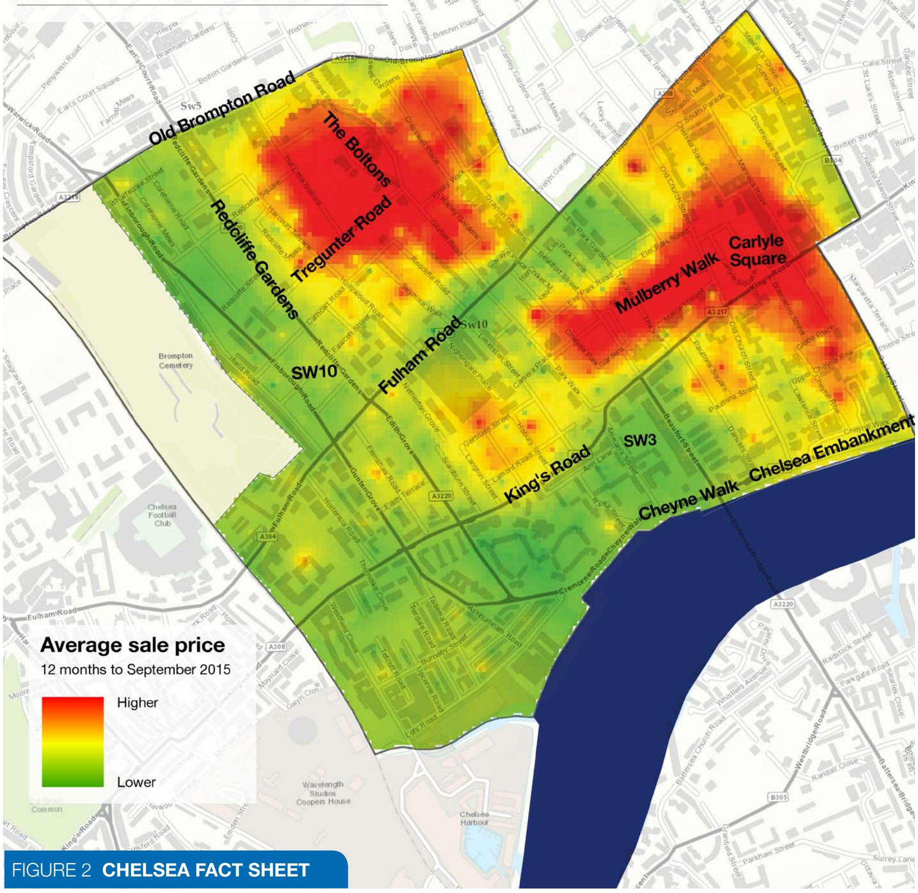
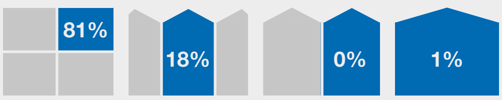


FIGURE 2 **CHELSEA FACT SHEET**

£1,600 to £2,200: Price range per square foot
0.2%: Annual price growth in December 2015
-3.5%: Annual rental value growth in December 2015
3%: Chelsea's % of London's £10 million-plus deals in 2015

Blue Plaques
Isambard Kingdom Brunel Engineer
Sir Alexander Fleming discovered penicillin

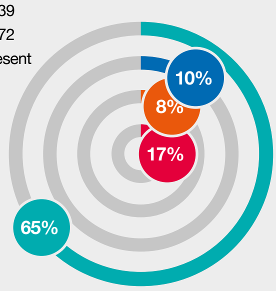
PROPERTY TYPE
(£1million-plus sales, two years to June 2015)



Population: 28,386

AGE OF HOUSING STOCK

Pre-1900
1900-1939
1945-1972
1973-present



Source: Knight Frank Research

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Chelsea has also had to contend with the fact nearby markets in south-west London including Battersea, Wandsworth and Fulham are more affordable. Average prices in Chelsea of between £1,600 and £2,200 per square foot compare to £850 to £1,200 in neighbouring Fulham.

Furthermore, activity dampened across the whole of prime central London in 2015 as buyers became more price-sensitive after an increase in stamp duty for properties worth more than £1.1 million in December 2014.

However, recent signs of momentum have emerged as vendors increasingly reflect the more subdued state of demand in asking prices. Further uncertainty surrounds a fresh hike in stamp duty for buy-to-let properties and second homes in April, but more realistic asking prices mean the Chelsea market has begun to finds its feet, in a further parallel with the UK economy.

There are also strong grounds for optimism as other London markets close the price gap with Chelsea.

Price growth in Chelsea has been overtaken by areas like Marylebone, Hyde Park Estate and the South Bank since 2013 as buyers seek better value following strong growth in traditional 'safe haven' markets after the financial crash.

Prices in Marylebone, Hyde Park and South Bank rose 8.3%, 9% and 10.9% respectively in the two years to December 2015, out-performing the prime central London average of 6.1% and just 0.2% growth in Chelsea.

As prices north of Hyde Park and south of the River Thames catch up, demand in Chelsea is likely to grow given it remains a popular residential neighbourhood, whose appeal is also reinforced by its improving transport links.

A possible Crossrail 2 station in Chelsea would enhance connectivity and may spur further investment from leading landowners including the Cadogan Estate and the Sloane Stanley Estate. In addition to an increased river taxi service from Chelsea Harbour and Cadogan Pier, there is planning permission for a footbridge from Battersea.

A resurgent UK economy, major infrastructure plans and the narrowing price gap versus other areas of prime central London mean the groundwork is laid for the revival of the residential market as Chelsea moves back into the spotlight.

FIGURE 3
Where have prices grown fastest?
Price performance versus the Chelsea average

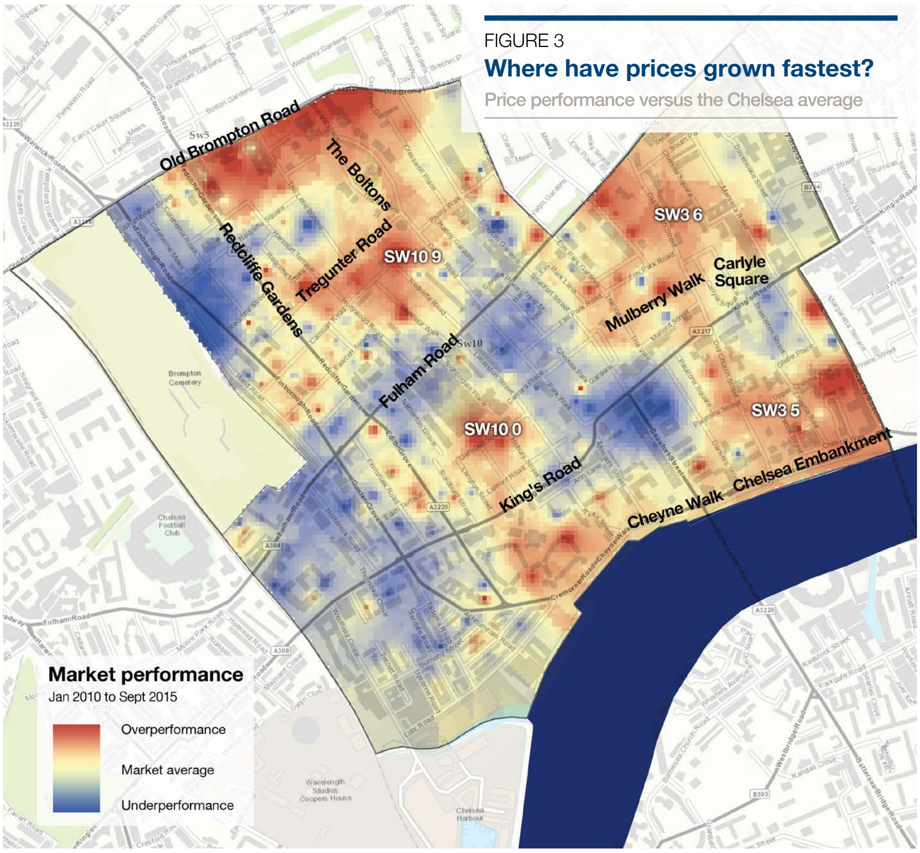
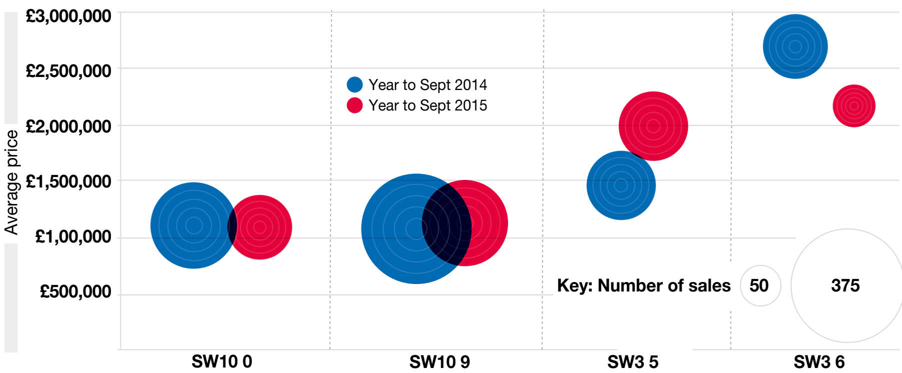


FIGURE 4
Average prices and sales volumes in Chelsea by neighbourhood



Source: Knight Frank Research

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