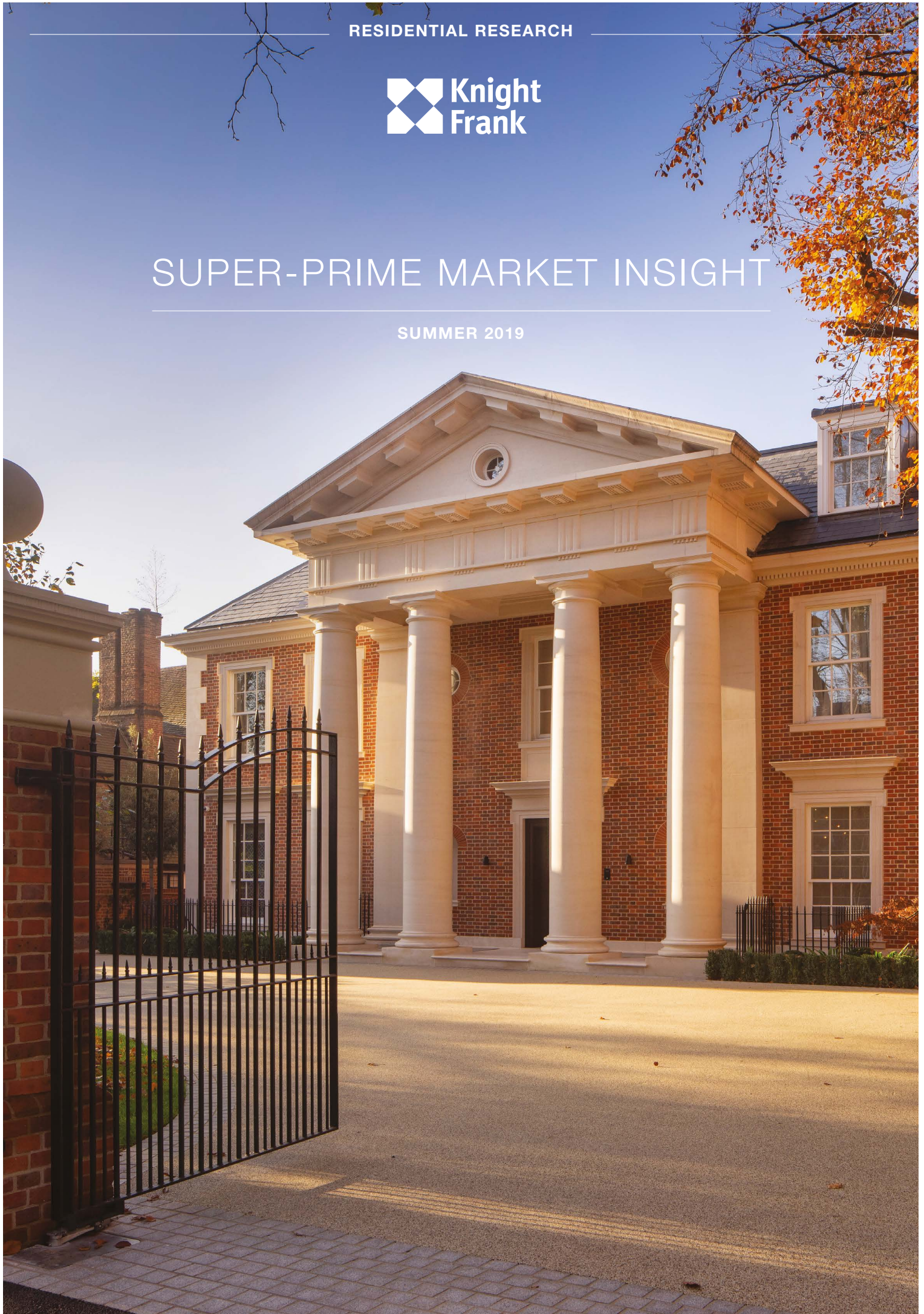


RESIDENTIAL RESEARCH



SUPER-PRIME MARKET INSIGHT

SUMMER 2019



SUPER-PRIME MARKET INSIGHT

Underlying demand for super-prime property remains resilient, as Tom Bill explains

Brexit-related uncertainty has curbed trading activity across all UK residential markets over the last 12 months. While London's super-prime (£10 million-plus) price bracket is no exception, it would be too simplistic to view this particular market entirely through the prism of UK politics.

First, the demand drivers are more numerous and complex. More wealth is being created in the world than ever before and it continues to move across borders, as our [Wealth Report](#) this year found.

Combined with the fact that there are more ultra-high net worth individuals based in London than in any other global city, and that they have a growing propensity to invest in real assets, it is perhaps not surprising that last year saw the highest number of £20 million-plus deals in London (38) since 2014.

Indeed, the total volume and value of transactions above £20 million has been on a broad upwards trajectory over the last nine months, as figure 3 shows.

Overall, there were 109 transactions above £10 million in the year to January 2019, a 19% decline compared to 134 over the previous 12-month period. Meanwhile, the total value of transactions decreased by a smaller figure of 11% over the same period, reflecting the uplift in activity in the higher price brackets.

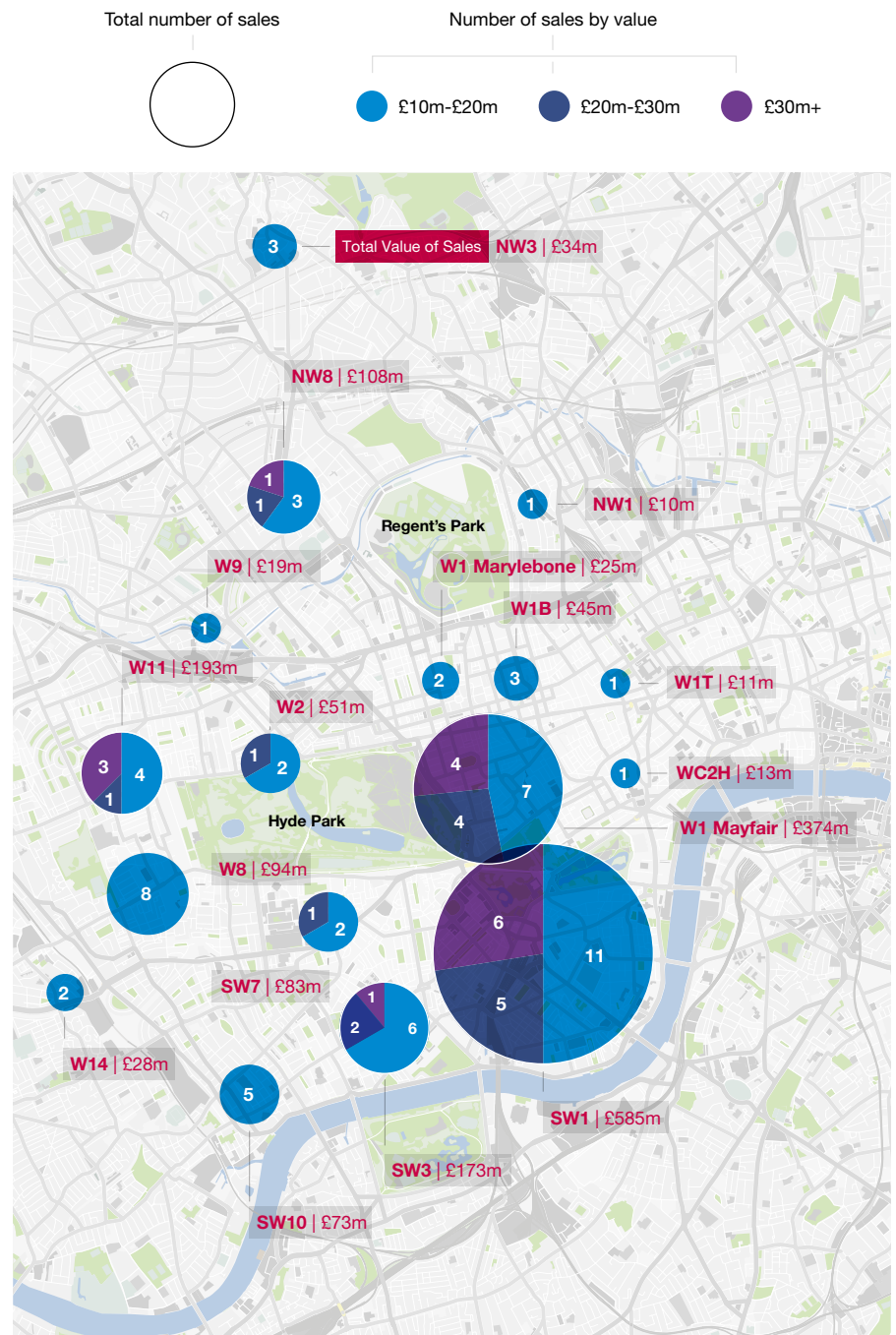
Notting Hill and Mayfair are the two markets where transaction volumes grew over the same period. While demand in Notting Hill has grown due to the extent of price adjustments in the area and its needs-driven buyer base, Mayfair has benefitted from a high-quality new-build pipeline, as figure 6 shows.

More broadly, the weakness of the pound has sustained demand. The effective discounts available for a range of overseas currencies since the EU referendum are similar to those seen in the 12 months following the collapse of Lehman Brothers, as figure 5 shows.

The second factor that needs to be understood when evaluating the performance of the super-prime market is that pricing has had less far to fall due to its characteristics as a more thinly-traded and discretionary market. This fact, which means previous price increases have been less steep (see figure 2 right), explains why an annual decline of 2.5% in April was half the PCL average.

FIGURE 1

Super-prime map of London £10 million-plus sales, 12 months to April 2019



Source: Knight Frank Research

FIGURE 2

Total trough-to-peak price rise (March 2009 to August 2015)



Source: Knight Frank Research

2019/20 OUTLOOK AGENT PERSPECTIVE

Knight Frank's agents in the super-prime market share their perspective on some of the key trends.



The future feels positive

"Pent-up demand continues to build as buyers sense good value. At the same time, a growing number of vendors are taking a more pragmatic approach and engaging with buyers, which is why we expect future activity levels to strengthen. The continuing weakness of the pound means there has been a good balance of international and domestic demand, with many pricing in the political risk surrounding Brexit and taking a long-term view."

Paddy Dring, Global Head of Prime Sales



Passing peak uncertainty

"Transaction volumes will increase when buyers have more clarity regarding the resolution of Brexit. Sentiment is then likely to improve quickly as we move on from 'peak uncertainty', particularly given how robust the economic fundamentals are. Best-in-class stock, whether fully-serviced lateral apartments or low-build family houses with large gardens, remain the most in-demand properties for capitalised and active buyers."

Rory Penn, Head of Private Office



The appeal of real assets

"As our Wealth Report showed, London has the highest number of ultra-high net worth individuals of any city in the world and shrugged off Brexit-related concerns to claim top spot in the global City Wealth Index. Real assets are still seen as a good long-term store of value. Deals above £25 million, for example, tend to involve buyers who are as happy to buy a property as they would buy a plane or a boat."

Tom van Straubenzee, Head of Private Office



The prime new-build options are narrowing

"We have seen a flurry of activity across build-complete schemes in prime central London, most notably in Mayfair and Kensington. The currency factor has been a trigger for some decision-making but a lot of demand also derives from the fact that the options are narrowing for finished super-prime schemes in the prime postcodes. In April, we saw five reservations in completed schemes above £10 million."

Rupert des Forges, Head of Prime Central London Developments



Life cannot be paused any longer

"Brexit has become less of an issue as the can has been kicked further down the road. People have been waiting a long time for a resolution and there comes a point when they simply have to move on with their life. There is an interesting dynamic at play: buyers are understandably keen to time their purchase correctly but there comes a point when life decisions mean it becomes self-defeating to hold out any longer."

Daniel Daggers, Private Office



Competition among buyers returns

"Competition has returned among buyers alongside the 'fear of missing out'. This is mostly seen for 'best-in-class' properties in good locations, where pricing has reached its correct level. For example, recently we have been involved in a best bids scenario, after 18 months of marketing with little interest. I liken it to the inclination of not wanting to eat in an empty restaurant – interest from one person sparks interest from another."

Charles Penny, Private Office

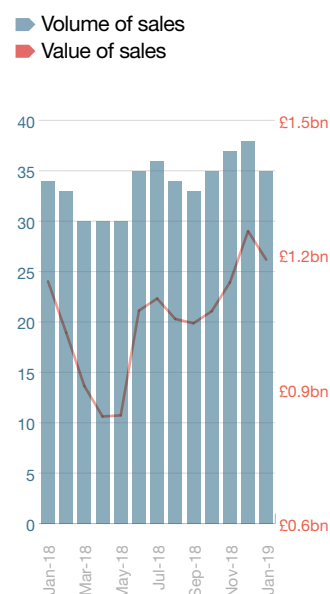


Education is a key demand driver

"Education remains a key driver of demand from Hong Kong but the trend has changed in recent years. Before, it was largely about University education but buyers are now thinking about it earlier and earlier. It's harder to get your kids into local Hong Kong schools so many families are now thinking about getting into the best English schools from the age of 13. Some parents are starting to think even further ahead, all of which is increasing the buyer base for super-prime London property."

Mei Wong, Head of International Residential Sales, Hong Kong

FIGURE 3
£20m+ market activity
Rolling annual total



Source: Knight Frank Research

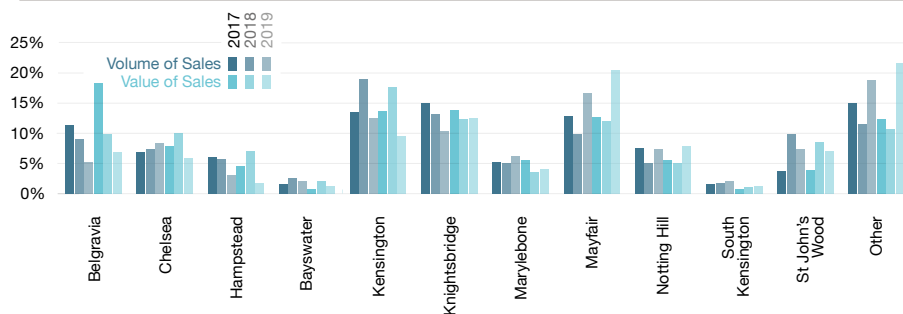
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Sentiment is then likely to improve quickly as we move on from 'peak uncertainty', particularly given how robust the economic fundamentals are.

FIGURE 4

The location of London super-prime sales

£10 million-plus sales by area, % share of the overall London market

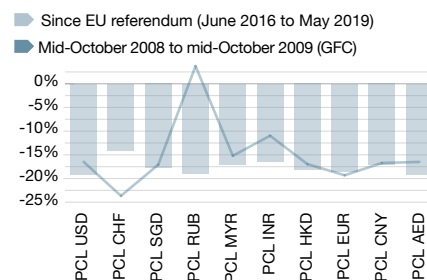


Source: Knight Frank Research

FIGURE 5

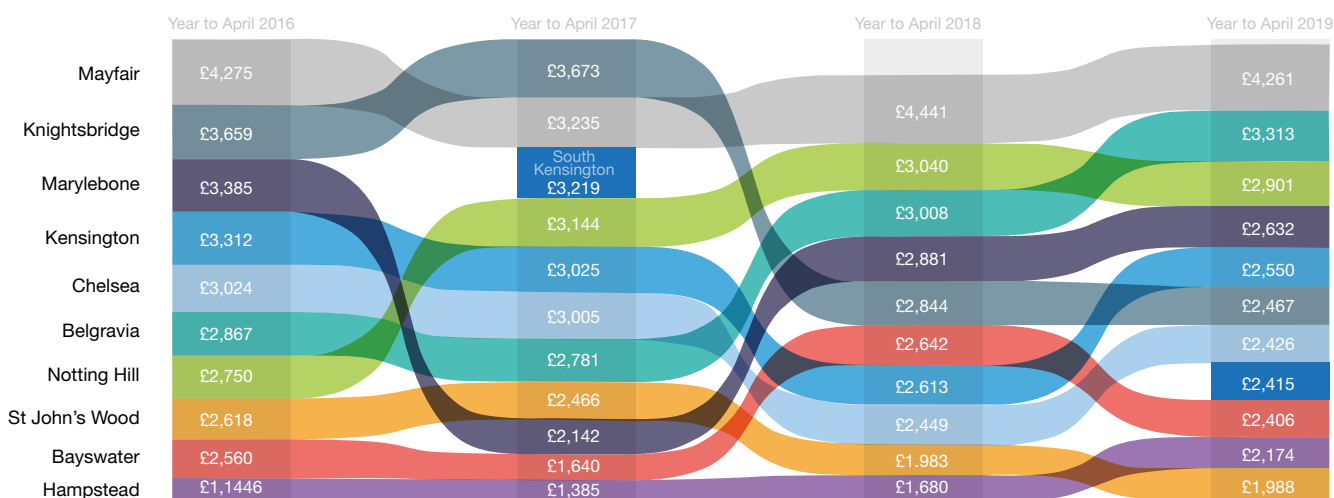
Effective discount for £10m+ property

(Currency change + price movement)



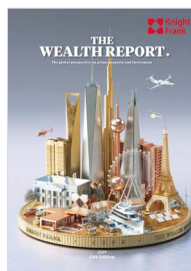
Source: Knight Frank Research

FIGURE 6

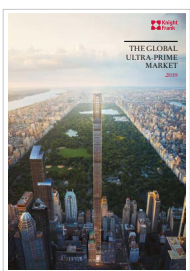
Median £/PSF in the London super-prime market Existing homes and new-build properties

Source: Knight Frank Research

REPORTS



The Wealth Report 2019

London Review
Summer 2019London Super Prime
Lettings Spring 2019Prime Central London
Sales May 2019Global Ultra-Prime Market
2019Prime Country House Index
Q1 2019

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PLEASE GET IN TOUCH

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

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