Knight Frank

Focus on: W2

2021

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NORTHERN PROMISE

Bordered by Notting Hill, Kensington Gardens and Marylebone, and with significant funding committed to landmark regeneration served by a new Elizabeth Line, W2 is a prime central London neighbourhood to watch.

Situated between the prime residential markets of Kensington, Notting Hill and Marylebone and located on the edge of Hyde Park, W2 occupies an enviable position in prime central London.

Yet this district, which includes Bayswater, Paddington and Queensway, has historically been overlooked compared to its neighbours. The presence of a mainline rail station at Paddington has, as is often the case, contributed to the fact that many period residential properties in W2 were converted to hotels in the last century.

Similarly Queensway, an historic shopping parade that runs through the area as its central spine, has retail units with rents at a fraction of prime West End shopping streets just over a mile away.

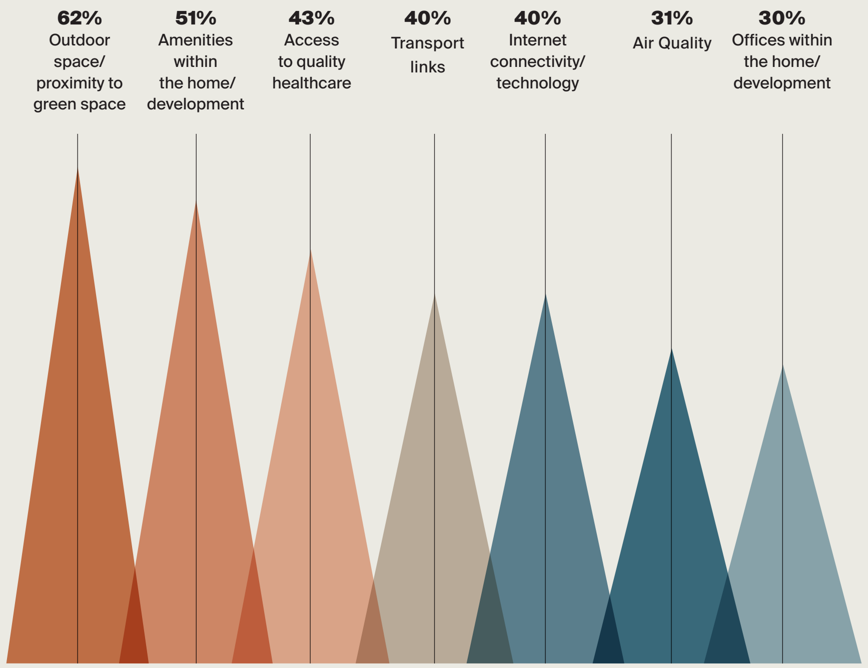
However, over the next few years this looks set to change. The emergence of a handful of new landmark developments, as well as the wider regeneration of Queensway, will transform the area with new homes, hotels, restaurants, retail and public spaces.

Meanwhile, improving transport links at nearby Paddington will make the area even more accessible.

> "The emergence of a handful of landmark developments as well as the wider regeneration of Queensway will transform the area. The spotlight is on W2 now more than ever

FIG 1. **THE GROWING APPEAL OF PARKS AND GREEN SPACES**

When choosing a new home which attributes are most important?



Source: Knight Frank Wealth Report 2021

Another factor underpinning the appeal of W2 lies in its relative value given its prime central location (map. 1), as well as its park-side position with south-facing views over Kensington Gardens.

Indeed, W2 remains relatively overlooked given that some of London's best-known addresses and new developments surround the perimeter of London's Hyde Park, arguably the epicentre of the prime central London residential market

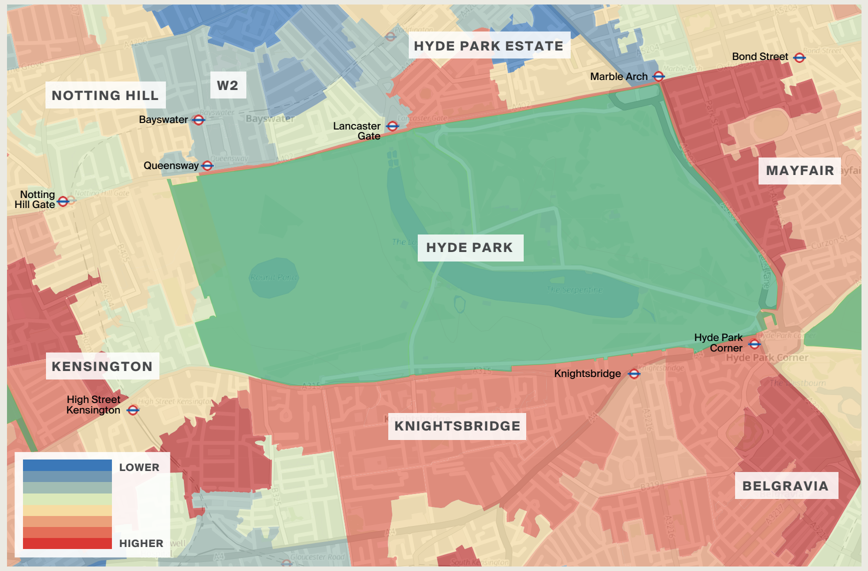
Parkside locations have long been target locations for developers, evidenced by schemes such as One Hyde Park and One Kensington Gardens. Kensington Palace Gardens, one of London's best-known addresses, lies to the west of the park. Yet W2, the postcode with the longest park frontage, does not seem to have capitalised on this.

Our analysis shows that average sales prices in W2 stood at just over £1 million in 2020, some 22% lower than average values in neighbouring Notting Hill, and more than 70% lower than in Kensington and Knightsbridge, the other park-adjacent neighbourhoods.

Given the expected increased emphasis on access to gardens or green space post-pandemic from buyers (fig. 1), particularly those in urban settings, W2 is well positioned to benefit. Indeed, Notting Hill and Bayswater have been among some of the stronger performing central London markets through the pandemic thanks to a combination of good local amenity, access to green space and walkability.

With easy access into the West End and the City via tube, and a short walk from the new Elizabeth Line service at Paddington from late 2021, the spotlight is on W2 now more than ever.

MAP 1: **AVERAGE SOLD PRICES SURROUNDING HYDE PARK**
2020



Source: Land Registry/LonRes

ALEXANDER LEWIS,
Knight Frank Residential Development Consultancy

THE INSIDE VIEW

The advancement and redefinition of Bayswater has been discussed and tentatively explored for as long as I can remember. It is an area of London that Knight Frank has always championed having opened its Hyde Park office on Craven Terrace in 2011.

Despite sharing the stucco fronted Victorian architecture of Belgravia, facing south onto Kensington Gardens and being walking distance from Marylebone, Mayfair, Kensington, Notting Hill and Knightsbridge, it has always been viewed as the good value option. For decades, those in the know have bought in Bayswater taking advantage of super-prime accommodation for prime prices. This was largely down to the proliferation of tourist hotels and the absence of any cohesive retail provision.

Today, the budget hotels are all but gone, converted into luxury apartments. And finally, the much talked of re-imagination and development of Queensway is underway led by the Queensway Joint Steering Committee. It is really happening. This is the linchpin. The final part of the Bayswater jigsaw and one that will link the vibrancy of Notting Hill to Marylebone and Mayfair.

London has always been an attractive destination for global investors and 25% price growth is forecast over the next five years. Those looking for outperformance will be targeting Bayswater.

> "Those looking for outperformance will be targeting Bayswater

ALL CHANGE

W2 is undergoing a significant revival thanks to a strong development pipeline, which includes a handful of landmark schemes, as well as the arrival of the Elizabeth Line at nearby Paddington.

Once the new rail line is fully operational, the area is expected to become one of the capital's major transport hubs with new direct fast links to Heathrow Airport, the West End, the City and Canary Wharf.

But while improving transport connections nearby are playing a part in the regeneration story, W2 has always been well connected, attracting residents drawn to good housing stock close to transport hubs.

W2 has five underground stations, including a Central Line service into the City, and one National Rail service at Paddington. The area also has numerous cycle paths across Hyde Park and Kensington Gardens and is walking distance from Kensington, Notting Hill, Marylebone and Mayfair.

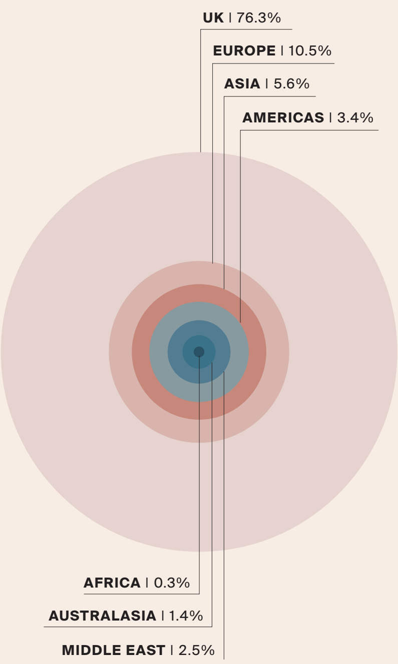
Consequently, there has always been a strong depth of demand for homes in the area, from both domestic and international buyers and tenants. Knight Frank data shows UK buyers have made up more than 70% of the overall sales market in Hyde Park and Notting Hill over the last five years (fig. 2), but international demand including European, Asian, US and Middle Eastern buyers, is more prevalent in the new homes market.

Little surprise, then, that development volumes are rising. There are 1,300 units identified in the pipeline for W2, though 60% of these are focussed on Paddington regeneration typically trading below £1,500 psf.

In Bayswater, with the exception of the Lancasters, schemes to date have largely been small scale period hotel or office conversions with a £psqft value of between £1,750 to £2,000.

However, there is strong pipeline of new development now taking place within Bayswater. Of the 550 units in the Bayswater pipeline, 70% are focussed on Queensway, and have the potential to re-position Bayswater in line with its neighbouring districts.

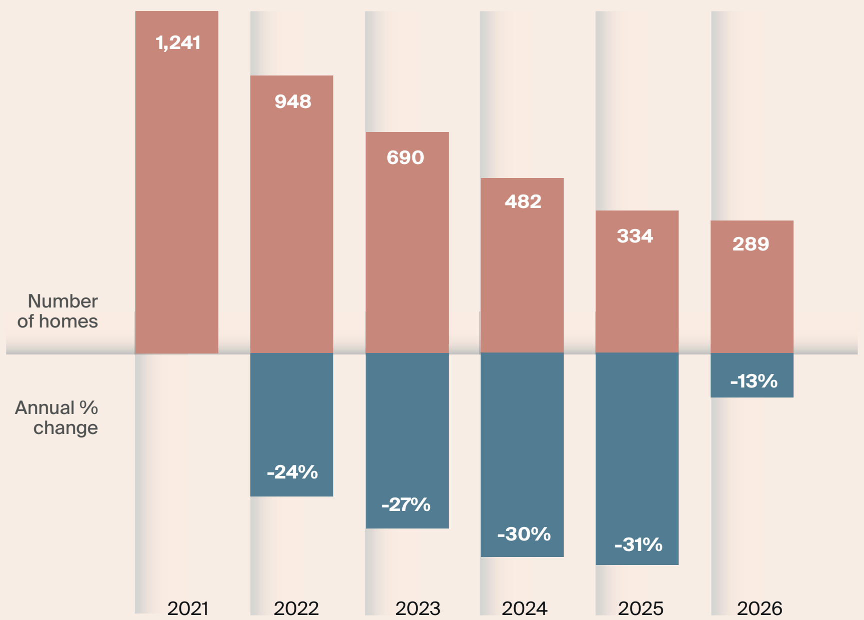
FIG 2. **WHERE DO BUYERS COME FROM?**



Source: Knight Frank Research

FIG 3. **DIMINISHING PIPELINE OF SUPER-PRIME NEW HOMES**

Estimated number of £3,000+ psqft units in London and forecast change



Figures are estimated based on the number of super-prime (£3,000+ psft) new homes in the development pipeline and forecast sales rates, which are based on historical trends.

Source: Knight Frank Development Consultancy

Prime regeneration

The evolution of Notting Hill into a London district with global appeal has spread to neighbouring Bayswater, notably along Westbourne Grove which has been transformed into an eclectic stretch of shopping boutiques and restaurants.

Central to the regeneration of Bayswater will be Queensway with plans underway to turn the street into a destination retail location. At the heart of this regeneration lies Westminster City Council's regeneration of the public areas. This recognises the need to improve the pedestrian experience on Queensway through widening the pavements, reducing the impact of traffic and improving the public realm through improved lighting and landscaping.

This will be funded through the S.106 contributions of development in the area and includes the creation of a new gateway into the park. A sum of c.£13m has been committed by Westminster City Council for these improvements.

On top of this public realm improvement, five key developments are proposed for the street. Park Modern (Fenton Whelan/Cheyne Capital), the redevelopment of South Queensway (Bourne Capital), a new plaza at Princes Court (Bourne Capital), a new retail parade at North Queensway (GMS Estates) and the comprehensive redevelopment of Whiteleys (Finchatton/CC Land/MARK). This group meets as the Queensway Joint Steering Committee to ensure coordination across their respective schemes.

The south end of Queensway at the entrance to the park will be bookended by Park Modern, where work is underway to construct over 50 apartments overlooking the park, opposite the new entrance to Kensington Gardens. This project will mark the gateway of "Bayswater Village", the name given by Westminster City Council to the overall initiative, as well as creating a new Royal Gateway into Kensington Gardens working with the Royal Parks.

Of the eight retail parades on Queensway, five will be comprehensively regenerated and re-let, altering the retail tone of the street.

This regeneration will be book ended at the north end of the street by the £1.5 billion redevelopment of Whiteleys, London's first department store.

The overhaul of this historic Victorian mall designed by Foster + Partners is set to complete in 2023. The Whiteley will comprise 1 million square feet of mixed-use development within a restored Grade II listed building comprising 139 flats, 20 shops and restaurants, a cinema, gym and a Six Senses hotel with 110 rooms.

The masterplan of the streetscape has been designed by Burns and Nice, architects behind Exhibition Road and Mount Street and will link the separate initiatives.

> "Schemes to date have largely been small scale period hotel or office conversions. Park Modern and the Whiteley will re-position Bayswater in line with its neighbouring districts

The Whiteley

PARK PREMIUMS

With the pandemic underscoring the value of residential districts close to parks, demand for new homes in areas undergoing transformation such as to the north of Hyde Park is expected to rise.

Living with green space on your doorstep has always been an attractive prospect, even more so following the experience of the Covid-19 pandemic.

Months of being homebound have enhanced people's desire to for space, inside as well as out. Accordingly, access to green space is the attribute that is rising up the wish list of prime residential buyers. This has been reflected most evidently by the strength of prime regional markets across 2020. But also across the London market for houses and apartments with open space and aspect.

Data from our most recent Attitudes Survey, as featured in The Wealth Report 2021, found that 62% of ultra-high-net-worth individuals (UHNWIs) globally are taking proximity to green spaces, such as parks, into consideration when deciding where to buy. Just under a third reference air quality as an important feature.

Furthermore, our latest residential client survey of prospective UK buyers revealed that 66% of respondents now view having access to outdoor space as a higher priority than before Covid-19.

Perhaps unsurprisingly, then, our research shows that homes adjacent to one of London's Royal Parks can command a significant premium..

That figure stands at 33%, on average, for a park-adjacent property, while those with a park view can command a greater premium, with a potential 75% average uplift.

Buyers have always targeted park-facing properties, both as homes in which to live, as well as investment properties which can outperform the wider market thanks to their unique vistas.

The other factor underpinning their desirability is their scarcity. In the last 30 years, only eight schemes have been completed on Hyde Park's edge. Our analysis of the development pipeline suggests that at present there are less than 60 units available in these schemes and that by 2023, there will be fewer than ten units at any one time.

75%

Average premium for a property with a direct view of one of London's Royal Parks

The view from a terrace at Park Modern, Fenton Whelan

RESILIENT RESIDENTIAL

The London property market in 2020 was shaped by the search for space and restrictions on international travel.

This played to prime outer London's strengths and disproportionately curbed demand in some more central London postcodes. As a result, values in central London have been in more of a holding pattern in recent months, with pricing relatively flat in the early part of the year.

On an annual basis, values in central London were 3.5% lower. Most of the decline was recorded in the early months of the pandemic and average prices have held up well since the market re-opened last May.

While travel restrictions have tempered international demand through 2020, activity is expected to return quickly once rules are relaxed, particularly at the top end of the market which has proven resilient through 2020.

Super-prime London

Nearly $4bn was transacted on super-prime properties ($10m+) in London last year, more than any other city. Moves towards closure on Brexit and the weak pound helped the capital leapfrog Hong Kong and New York in the rankings.

The UK capital saw super-prime transactions rise by 3%, while Hong Kong and New York saw theirs fall by 27% and 48% respectively. Domestic buyers accounted for a third of all activity in London's super-prime market, up from 12% a year earlier. European buyers were also more prevalent due to the relative ease with which they could reach the city.

Pricing at this level has also held steady, with an average pound per square foot in the super-prime market of £3,182 in 2020 compared to £3,204 in 2019. Furthermore, while the number of viewings of super-prime properties in London fell by 36% due to the pandemic, the number of new prospective buyers registering increased by 109% in the year to January compared to the previous 12-month period, the highest such rise in more than 10 years.

In W2, in the market above £5m, there was a 17% increase in sales in 2020 compared with 2019, highlighting its continued growth as a prime market.

Forecast

We expect prime London markets will outperform over the course of the next five years. Prices in prime central London have corrected by more than any other UK market over the last five years and this should support growth in the medium term.

Overall, we are forecasting values in prime central London will increase by 25% between 2021 and 2025, with 2% growth this year followed by a 7% rise in 2022 as more of the pent-up demand currently building is displaced into next year (fig. 4).

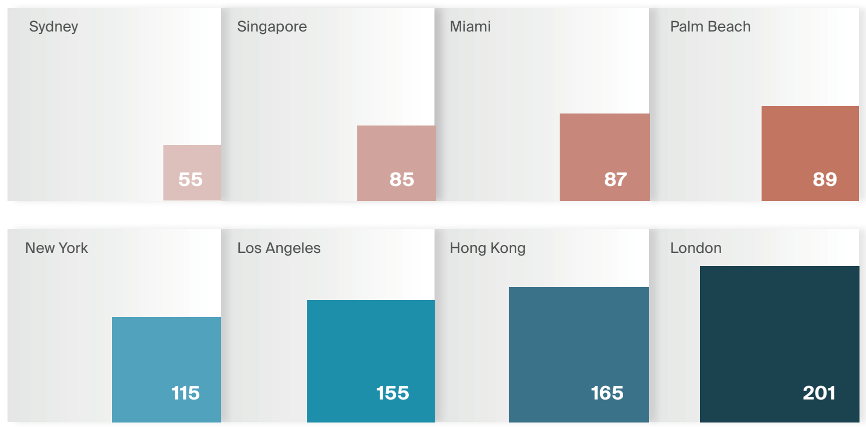
With its pipeline of high-quality new residential development, and its proximity to Hyde Park, W2 is well positioned. However, this pipeline is being depleted over the next five years due to planning restrictions and underlying land values (fig 3, pg 4).

FIG 4. **FIVE-YEAR HOUSE PRICE FORECASTS**

	2021	2022	2023	2024	2025	CUMULATIVE 2021 TO 2025
Prime Central London	**2%**	**7%**	**5%**	**4%**	**5%**	**25%**
Prime Outer London	4%	4%	4%	4%	5%	23%
Greater London	4%	4%	3%	3%	3%	18%

Source: Knight Frank Research

FIG 5. **NUMBER OF SUPER-PRIME $10M+ SALES. 2020**



Source: Knight Frank Research

W2: KEY FIGURES

70%

Average values in W2 lie 70% below neighbouring W8. Bayswater has seen piecemeal luxury development over the last 20 years with values typically £1,750 - £2,250 across period and office conversions, with the exception of the Lancasters and more recently 13-19 Leinster Square.

£13M

Committed to the public works involved in the regeneration of Queensway by the City of Westminster

33% AND 75%

Knight Frank estimate the average premium for park adjacent and park view properties respectively. W2 has the longest park frontage of any Central London postcode.

106%

While viewings in the super-prime market fell by 36% over 2020, registrations increased by 106% highlighting the pent-up demand in the market.

25%

Knight Frank forecast for price growth in prime central London over the next five years. At the same time, the pipeline of new-build super-prime units is forecast to decline at an average rate of 25% per annum.

Front cover image kindly supplied by Fenton Whelan

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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