



Super Prime Residential Outlook

Spring 2022



Foreword



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As we enter the main selling season it is clear that our Super Prime markets remain robust. Whether Prime Central London sales or lettings, Country or the International market, shortage of supply, increased demand, low interest rates (compared to long term averages), and easing travel restrictions all lead to support positive growth and a return to a more normalised market conditions.

Of course, how the markets and economies fare in the face of the unfolding humanitarian disaster in Ukraine is of little relative importance. However given the current crisis, there is a need to be aware of rising risks.

If we look back to mid 2015 (the last London peak) the £10m+ Prime Central London market is still 13% down, whereas in total contrast the Country market is up by 14% in the same period. The effect of the pandemic, the escape to the country and changing working habits driving this performance.

Historically property has acted as a safe hedge against inflation and many clients are building their property portfolios accordingly whether it be for generational change, lifestyle or long term investment (stimulated by increasing yields). The phenomena of 'Co primary living' remains real as many seek to continue to re-balance their

lives following the pandemic – retain the city and add the country or international. Inevitably the shortage of properties for sale, the easing travel restrictions and increased international demand has driven the lettings market and the “trophy” new development markets with both experiencing an increase in volume of sales in the last 5 months.

While “turn-key” and immediate delivery remains a key driver for many buyers, the opportunity to create your own dream remains evident despite current inflation levels and the rising costs of building.

Looking to the year ahead our recent survey of our UHNW clients shows that 23% are planning to invest in property this year, 15% plan to apply for a second passport or new citizenship and 36% of those are planning to do so for lifestyle. For this reason many wish to invest more rather than less globally leading to an increase in cross border investment. All contributing to further support the predicted steady price growth in our key global markets.

Whether you are considering buying, letting or selling or simply wishing to assess your property in the market please do get in touch with our Super Prime team.

London

It's fair to say the super prime property market in London has defied expectations over the course of the pandemic.

Despite the wide-ranging uncertainty provoked by the Covid-19 pandemic, the number of transactions above £10 million in the capital last year exceeded 140, whole-market data shows. That is the highest figure since 2015.

Similarly, total spend in the super prime price bracket was at the highest level since at least 2017, with a figure of about £2.4 billion.

The number of deals above £30 million is unlikely to break similar records, which is the result of more activity among UK-based buyers, something that will begin to reverse once international travel resumes to a greater extent.

This year has also started strongly for the super prime market in the capital with a total of 20 transactions recorded in the first two months of 2022, provisional data shows. In a sign of how normality may be returning, 12 of these sales were flats. Momentum is likely to build through the spring months, which is typically a more active time of the year for international buyers.

Houses had made up a larger proportion of transactions than in recent years as the 'race for space' intensified. In 2021, houses accounted for approximately three-quarters of super prime transactions in the capital, up from two-thirds in 2020.

It means markets including Notting Hill, Kensington and St John's Wood have seen their share of super prime deals grow.

Despite the growth of UK-based demand, overseas buyers have become more prevalent

since the lifting of international travel restrictions in October and were particularly active in the final quarter of 2021.

The largest group of super prime buyers last year in the capital was European (29%) followed by the UK (20%), reflecting the travel restrictions in place for most of the year.

As more international buyers return to the UK, there are still effective discounts (currency and price movement) in excess of 20% compared to the period before the EU referendum in 2016 given the ongoing weakness of Sterling. Growing pressure on the Bank of England to raise rates could see Sterling strengthen and the discount narrow. Furthermore, a Brexit trade deal is arguably not yet fully priced in to the pound.

London market snapshot – Q1 2022 vs the five year average:

+76%

New prospective buyers

+138%

Offers accepted

+56%

Market valuation appraisals



The Whiteley, Bayswater, W2 Guide price: Starting from £10,250,000

Super Prime lettings

The number of super prime lettings transactions (£5,000+/week) in London and the Home Counties has also risen despite the backdrop of the pandemic.

The number of tenancies agreed increased by 19% in the twelve months to the end of February 2022 versus the same period in 2020, Knight Frank data shows.

Demand for houses in particular has been exceptionally strong, benefitting markets like Chelsea, St Johns Wood, Kensington and Notting Hill. Tight supply means asking rents are often exceeded for the best properties and pre-lets are becoming increasingly common as prospective tenants secure properties that are still under construction or mid-renovation.

The lifting of international travel restrictions last October boosted demand further in the final quarter of last year while also tipping the balance in favour of apartments. Apartments accounted for 46% of all super prime tenancies in the last three months of 2021 compared to 26% between April and September.

Tenant demand has remained robust, with our Home Counties lettings teams seeing a 44% increase in deal volumes in the last 12 months, as changing lifestyles have prompted many people to simultaneously search for a London base and another property within an hour of the capital.

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The number of super prime lettings transactions (£5,000+/week) in London and the Home Counties has also risen despite the backdrop of the pandemic.

Super Prime lettings market snap shot – Q1 2022 vs the five year average:

+121%

New prospective tenants

+46%

Tenancies started

+95%

Market valuation appraisals



Upper Cheyne Row, Chelsea, SW3 Guide Price: £18,000 per week

Country

In the country house market, last year saw the most £5million-plus sales in 15 years, beating the previous record set in 2020 by 21%, Knight Frank data shows.

The pandemic-inspired surge has seen buyers capitalising on low interest rates and accumulated savings to pursue more space and greenery.

The number of new prospective buyers registering interest in the £5m+ country market was 12% higher than 2020, the previous record year, and 139% above the same figure in 2019.

With such high demand, supply has struggled to keep up. The number of £5m+ properties available for sale in December 2021 had fallen by a third compared to December 2019 although there have been signs of supply picking up in early 2022.

As a result of this supply/demand imbalance, the £5m+ country house market has been the top-performing segment of the market by price outside of London during the pandemic. The average price of a property in this price bracket rose by 19.8% in the twelve months to December.

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Since May 2020, the country house market has seen unprecedented activity with a record volume of sales and some price increases.

Country Super Prime market (£5m+) – January 2022 vs the five year average:

+61%

New prospective buyers

+126%

Offers accepted

+22%

Market valuation appraisals



The Old Rectory, Loxhill, Surrey Guide Price: £8,500,000

International

The stand out story in global property markets over the past 12-months has been the continued surge in pricing across the residential sector. Covid-inspired lifestyle changes have fuelled demand for larger properties, and record excess savings built up during rolling lockdowns, together with record low interest rates have facilitated new purchases.

The result has been record levels of price growth in many of the prime markets we cover, with significant rises reported in markets like Dubai, Miami, Los Angeles, the French and Italian Rivas and the Alps. The super prime markets in these and other markets have similarly been lifted as buyers have looked for opportunities to upgrade properties.

Demand for US\$10m+ property in London, New York, Singapore and other key global markets has risen strongly after a hiatus in the first half of 2020 – with many markets, like London seeing

the strongest sales volumes since before the financial crisis.

The question on most buyers minds is the resilience of this demand and the longer term impact on markets of the recent price surge.

Our view is that the current surge in demand has some way to run and in most international super prime markets the pattern of strong demand outpacing limited supply will continue to be a feature through 2022. This should act to support prices at their current levels and in most markets in Europe and the US should allow for further growth this year - don't be surprised if we see double-digit price growth in the best sun and snow belt markets again over the coming 12 months.

The biggest risk to this scenario is interest rates. Even the super prime market, with a high proportion of cash buyers, is not immune to the cost of finance. Property chains need to work to permit US\$10m+ sales as buyers move up through prime markets into top price deals, and many of

these buyers are leveraged to maximise their choice in the market. If central banks are unable to maintain a slow, steady reset to high interest rates this will weaken demand and be likely to weigh on sales volumes.

An urban resurgence is taking place as workers return to the office in advanced economies. Talk of a mass exodus in 2020 turned to "boomerang residents" as many new exiles realised the grass wasn't always greener away from the hustle and bustle of city life. City markets are likely to outpace second home markets this year as countries move towards a more liberal approach to managing the virus. With cities returning to normal, and restaurants and hotels refilling - the desire to consider urban homes will come front of mind for wealthy house buyers globally.

In a nutshell: super prime markets globally have been strong over the past 12-months, this strength will likely continue, with an urban twist, with inflation the main risk to watch.

+40%

*The annual rise in Cote d'Azur super prime sales agreed by Knight Frank in 2021**

(*This reflects all sales above €20m)

36

Monaco recorded 31 resales above €10m in 2021, five of these equated to new-build sales

(Source: IMSEE)

785

Super prime (US\$10m+) sales took place across 7 global cities during the first half of 2021.



Oceanus, Mustique, St Vincent and the Grenadines' Guide Price: \$16,000,000

Knight Frank - recently sold/let



Chelsea Barracks, Belgravia
 Guide price: Starting from £11,000,000



Avenue Road, St Johns Wood
 Guide price: £33,000,000



Penthouse, Pont Street, Knightsbridge
 Guide price: £25,000 per week



Albert Place, Kensington
 Guide price: £15,000 per week

Knight Frank - recently sold/let



Nautilus, Cologny, Geneva
Guide price: CHF 7,890,000



Bluff House and Cottage, Sandy Lane, Barbados
Guide price: \$8,950,000



Medstead Grange, Medstead, Hampshire
Guide price: £17,500,000



Manor Farm, Nether Wood, Oxfordshire
Guide price: £15,000,000

Knight Frank - currently available



Castelnuovo Berardenga, Siena, Tuscany

Guide price: Price on Application



One Grosvenor Square, Mayfair

Guide price: Starting from £11,250,000

Knight Frank - currently available



The Penthouse, 1 Stratton Street, London
Guide price: £20,000 per week



Lords Wood, Marlow Common
Guide price: £8,000,000

Please do get in touch...

London



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Country

Lettings