Prime Central London

Residential Development Update

2024

Knight Frank's review of the performance and key trends in the new build Prime Central London market

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Supply shortfall

The future pipeline of new homes in Prime Central London is highly constrained. Stringent planning policy and a lack of sites are key challenges

Against a backdrop of development land shortages and tougher planning rules, the supply of new build stock in prime central London (PCL) is under pressure. The future pipeline for prime new homes in the capital is highly constrained, and while the near-term outlook for demand has softened, we are forecasting price growth in the PCL market to outpace Greater London over the next five years (see p.6).

As things stand, the number of available homes for sale has fallen by 10% in the past nine months alone to just 557, Knight Frank analysis shows.

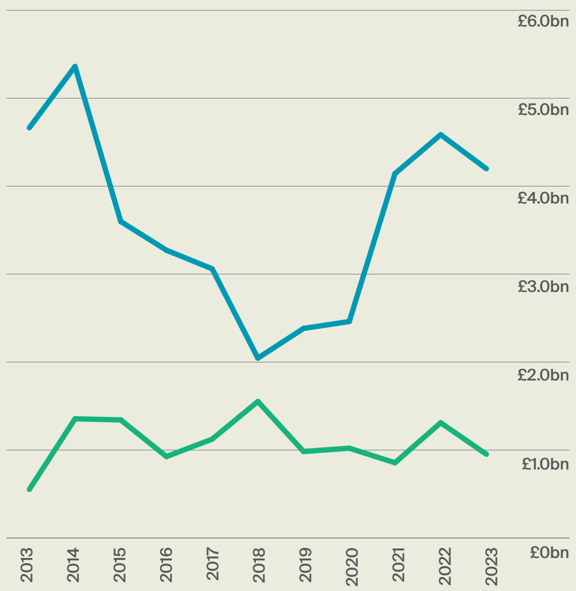
New supply would need to pick up exponentially to reverse this trend. But developers are grappling with high build and finance costs and a tight land market which has led to a significant drop in new starts across the capital, but particularly in inner London.

The planning environment in prime central London has always been tough but policy has hardened in some areas, which will limit housing delivery further. Planning restrictions for taller buildings throughout PCL will weigh on supply, while unit size restrictions for new build homes will make larger homes much more scarce. Units over 200 square metres are prohibited in Westminster. This policy could influence other boroughs to follow a similar path. Kensington & Chelsea has indentified a much higher need for smaller homes in its Local Plan, although it does not yet have plans for a size cap. To put that 200 square metre figure into context, the average size of a new build home sold in the borough of Westminster over the last 12 months was 120 square metres. Of the 77 homes that sold in Westminster during this time, which Knight Frank advised on, 25% were for properties above 200 square metres.

ANNA WARD
ASSOCIATE

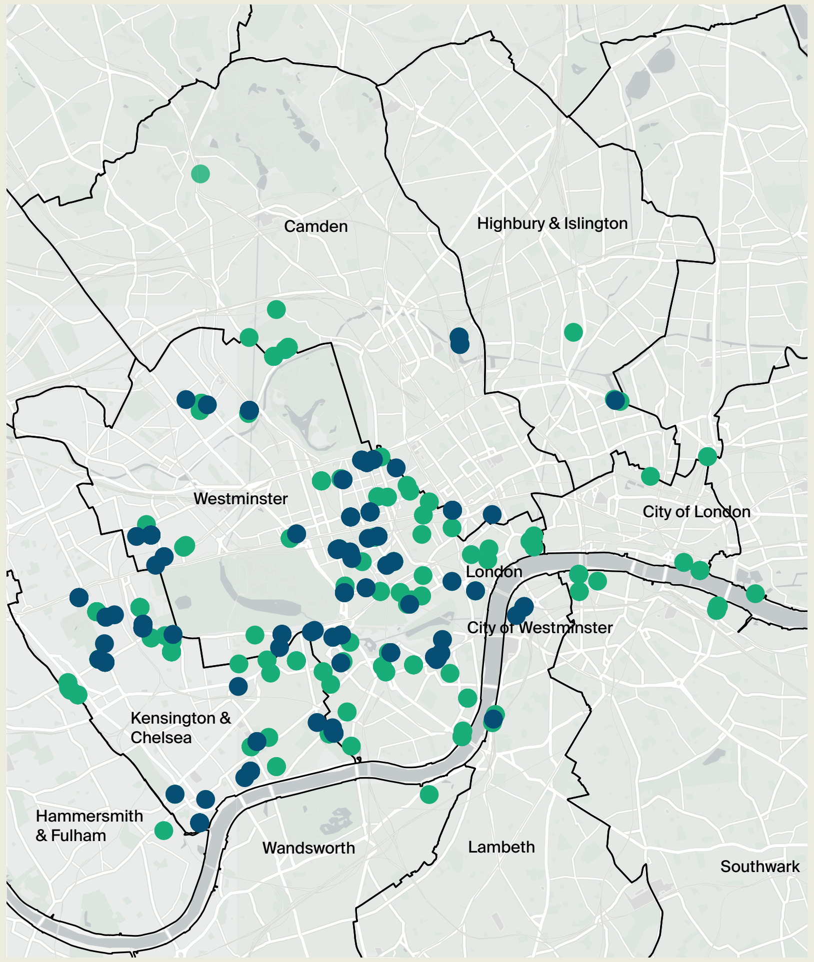
> "Planning restrictions for taller buildings throughout PCL will weigh on supply, while unit size restrictions will make larger homes much more scarce."

Fig 1: Prime Central London residential values
Total value of sales above £5m between 2013-2023



Source: Knight Frank Research

Fig 2: Expansive decade for PCL new build sales
Prime new build (£5m plus)



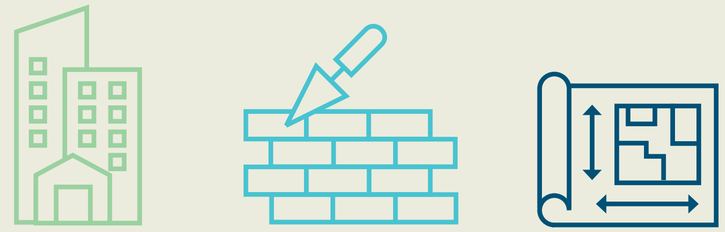
Source: Knight Frank Research

The prime central London residential development pipeline has contracted by 70% over the past decade, Knight Frank data shows. Looking at homes with a blended value of £3,000 per square foot and above – with prices ranging from £1 million to north of £30 million – the pipeline of homes with planning, under construction or recently completed, has shrunk from some 3,350 units ten years ago down to 1,114 currently (see Fig 3).

Of the schemes underway or complete and with homes available, the majority are in Belgravia (seven schemes), followed by Mayfair (five). New supply is dwindling despite robust demand, with super-prime London residential schemes attracting investment despite global economic headwinds. This is further exacerbating the declining development supply.

> "Planning restrictions for taller buildings in PCL will weigh on supply, while unit size restrictions for new build homes will make larger homes much more scarce."

Fig 3: Development pipeline in Prime Central London
Residential units worth £3,000 per sq ft and above



279	278	557
Complete – available to buy	Under construction – available to buy	Planning granted

Source: Knight Frank Research

Fig 4: UK's Ultra High Net Worth population to grow nearly 25% by 2028
% change (2028 vs 2023)

Source: Knight Frank Wealth Report 2024

70%
Reduction in homes in the PCL development supply pipeline over the past decade.

25%
Of all new build sales in Westminster last year were for properties above 200 square metres - new planning policy in the borough no longer permits units to be consented over this size.

£952m
The amount spent on new build property worth £5m plus in Prime Central London last year.

£12.7m
The value of the average £5m plus new build property sale last year in Prime Central London.

Current development trends

How have sales values and volumes across £5m plus PCL new build markets changed over time?

The £5m plus new homes market in Prime Central London has seen strong levels of demand over the past few years. While activity is expected to be more limited this year given a number of buyers are taking stock in light of government policy uncertainty (see p 6), transactions are still taking place, and London's enduring global appeal continues to support demand for prime new build homes.

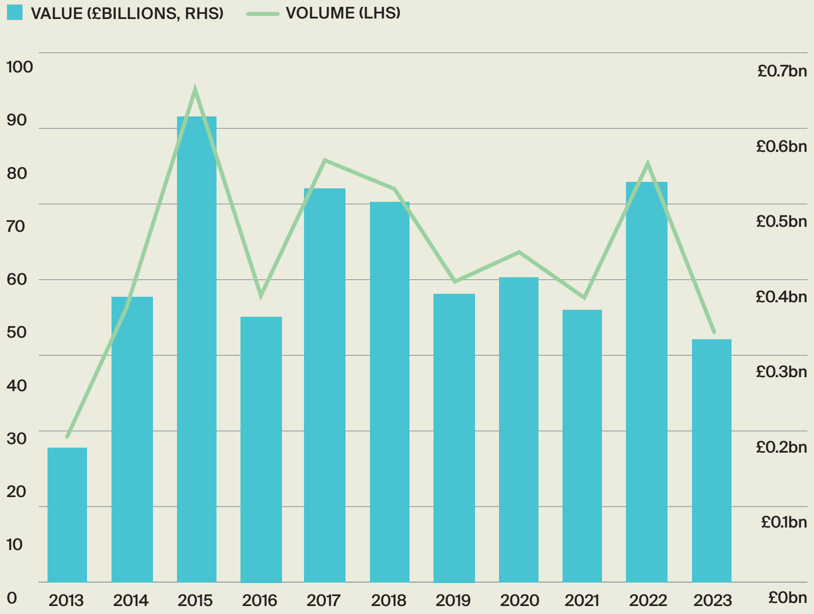
Total sales across existing and new build homes last year eclipsed £5bn, a step down from nearly £6bn the year before, which was the highest level since the 2014 peak, but historically elevated compared to recent years.

Overall, £952m was spent on PCL new build homes worth £5m plus last year. This marks a 27% decline compared to 2022, when annual sales jumped to a four-year high of £1.3bn. (see Fig 1). This was driven by a resurgence in demand post-Covid from around October 2021 up until the mini-Budget in September 2022. Over time, PCL new home sales in the £5m plus category have picked up from a historic low of £550m in 2013 to hover around the £1bn mark (ranging between £850m to £1.2bn).

Deal activity has seen a sharper fall than achieved sales values when looking at 2023 compared with the previous year. This points to the shift in focus towards the top end of the PCL new build market. Overall, the average sale in the £5m plus bracket came in last year at £12.7m, up from £11m the year before, and the highest on record since 2018.

Fig 5: Prime residential sales value – new homes

Sales between £5m-10m in PCL between 2011 and 2023



Source: Knight Frank Research

Prime new homes market covers more ground now then a decade ago

Fig 6: £5m plus new build sales in 2011-2013

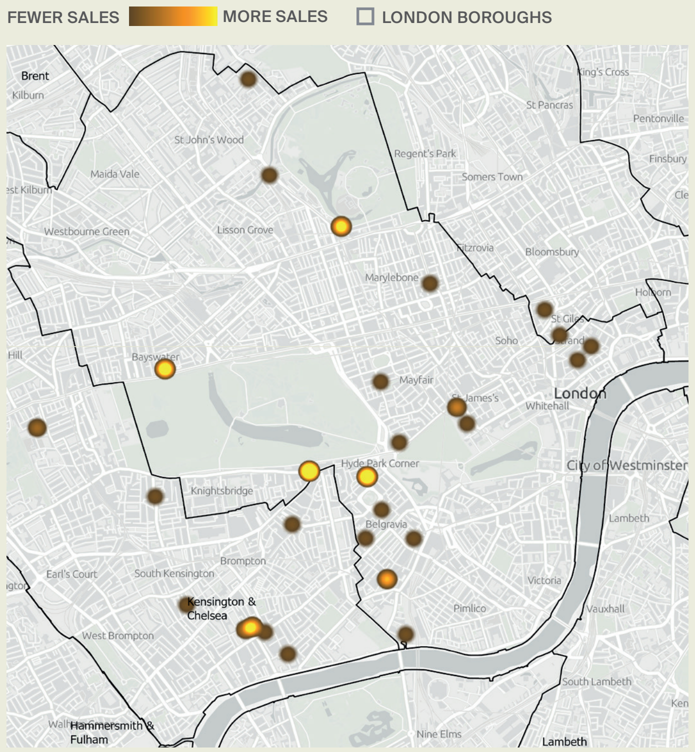
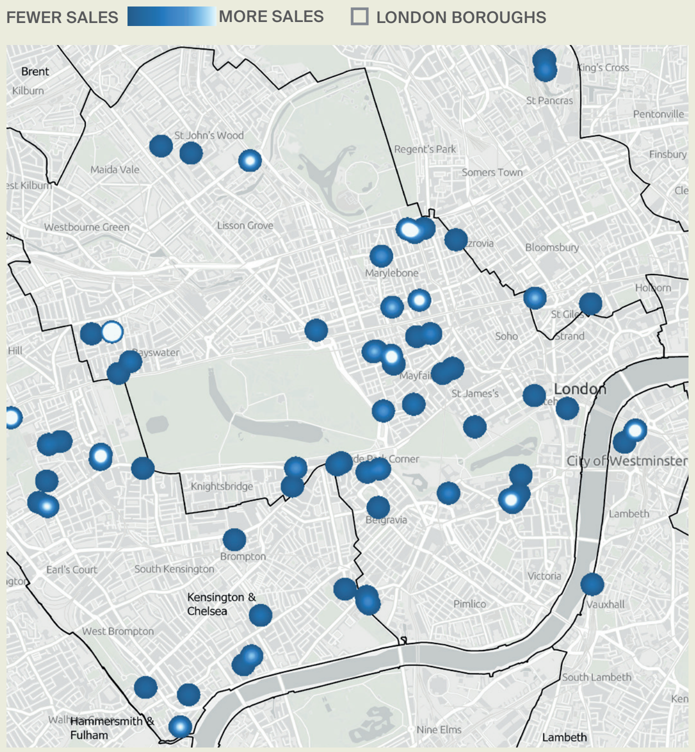


Fig 7: £5m plus new build sales in 2021-2023



£952m

Spent on £5m plus PCL new build homes in 2023

SUPER-PRIME

The £10 million plus super-prime market in the capital, encompassing both existing and new property, had its strongest year since 2014 in 2023. In total £3.4bn was spent on 156 super-prime properties last year, a nine-year high, including just over £630m on new build property (see Fig 8). Standout transactions last year include two sales north of £50m in Chelsea at The Glebe and Chelsea Barracks, and one north of £30m, also at The Glebe. While £10m plus new homes sales saw a 19% reduction in value last year versus 2022, overall levels are above historical trends, with sales 2% higher than the pre-Covid 2015-19 average.

The super-prime new build market in London has expanded significantly over the past decade. While sales have in the past three years retreated slightly towards the centre following a more expansive period (see Fig 2), sales cover more ground than they did back in 2011-2013 (See Figs 6 and 7).

These two maps illustrate the expansion of the PCL residential development market over time. A decade ago sales were focused in a smaller core zone (see Fig 6) with the darker clusters indicating fewer or sparse sales and the lighter ones demonstrating a denser, higher volume of sales. Since then, sales have expanded outwards, including south of the river (see Fig 7).

Fig 8: Super Prime residential value – new homes

Sales over £10m in London between 2011 and 2023

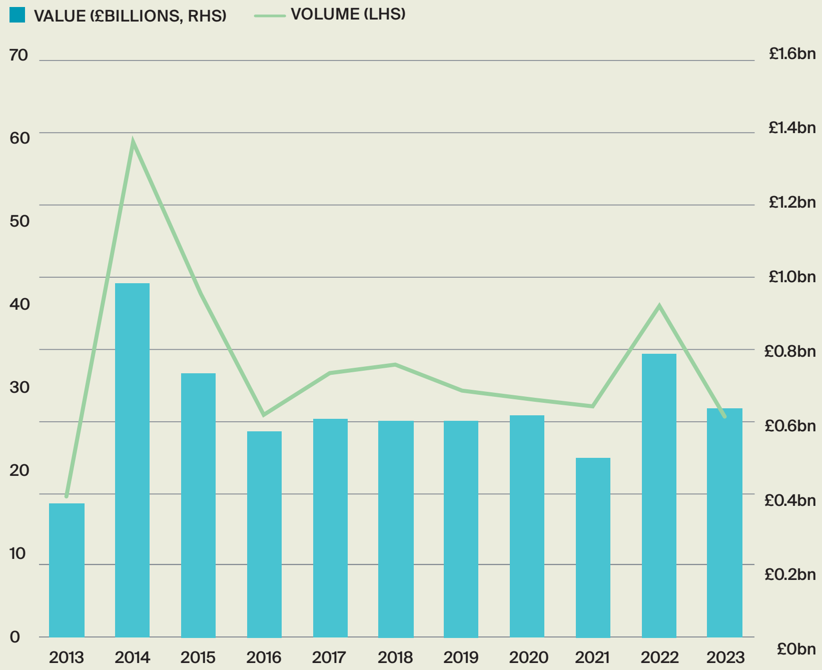
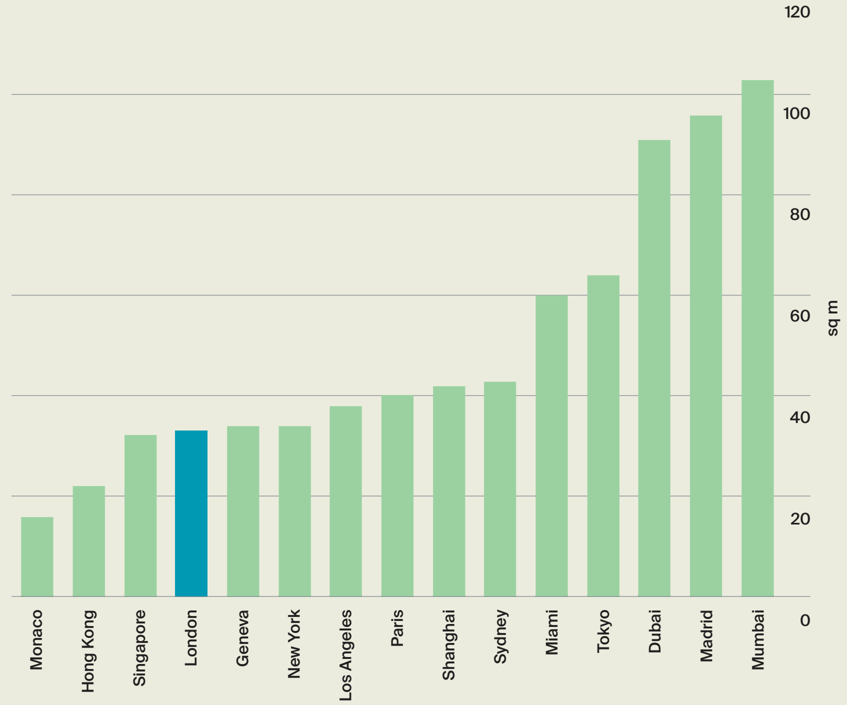


Fig 9: How many square metres of prime property US$1m buys in selected markets

Sq m/US$1m



Source: Knight Frank Wealth Report 2024

Broader PCL market trends and forecasts

Pricing and transactional activity has softened following a frenetic period during the Covid years.

The key focus moving forwards for prime London will be the reform of non dom rules. The combination of two different sets of proposals has understandably caused some hesitation in the market. Under the old rules, individuals could be resident in the UK without being taxed on their worldwide income. The Conservatives set out plans to limit this period to four years although there were indications they was prepared to loosen the proposals. Labour has devised their own tougher rules, which are still to be fleshed out.

Given the near-term outlook for demand in prime central London (PCL) has deteriorated over the last two months, we have revised our forecast and now expect prices to fall by 1% this year, down from a rise of 1% predicted in January.

As a long-overdue period of price inflation kicks in, we expect cumulative growth of 16.4% in the four years to 2028 in PCL.

Meanwhile, our forecasts for the UK, Greater London, prime outer London, and the prime Country markets have remained the same. These are all markets typically less exposed to political risk that tend to follow economic cycles.

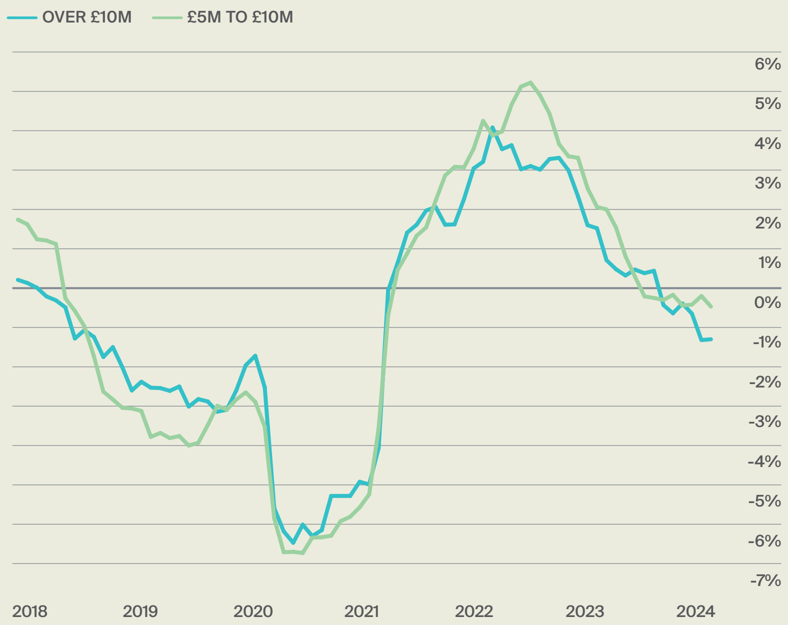
LAND

Prime central London land values have fallen under pressure but proven more resilient than average England greenfield and urban brownfield land, with the capital's high end housing market seeing stronger transactional activity. This is in large part down to a greater prevalence of cash buyers, which make it more immune to mortgage market challenges.

Overall, residential land values in prime central London have fallen on average 5% over the past two years, versus around 20% for the wider England land market. Land prices have remained broadly static in PCL since 2019. Previously, the market had experienced a long running decline in land and property values since 2016 in the wake of Brexit and stamp duty changes.

> "Land prices have remained broadly static in PCL since 2019, cushioned by the higher proportion of cash buyers and bigger pool of international buyers."

Fig 10: Prime Central London house prices
Annual % change

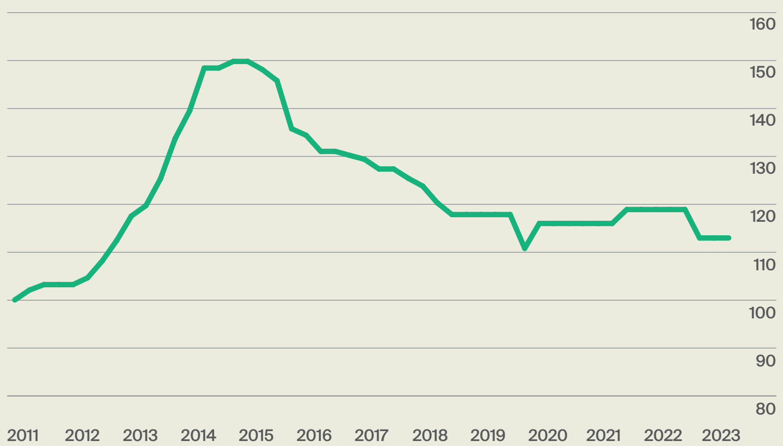


Source: Knight Frank Research

Table 1: Forecast

	Greater London	PCL
2024	2.0%	-1.0%
2025	2.0%	3.0%
2026	3.0%	4.0%
2027	4.0%	4.5%
2028	4.0%	5.0%
5 year cumulative	**15.9%**	**16.4%**

Fig 11: Prime Central London residential development land prices
Index rebased 100 = Sep 2011



Source: Knight Frank Research

Future outlook

Our London residential team shares their thoughts on what lies ahead for the PCL new build market in 2024

What are your expectations for the year ahead?

It is encouraging that demand is building for new homes in Prime Central London. After a slow start to the year, activity is increasing, everything from inquiries to footfall, viewings, and reservations. It is beginning to pick up and a cut to interest rates will be the catalyst that will give the PCL market confidence. It will be a more challenging year given the changes to the non-dom regime, but London will continue to attract global wealth.

The top end of the capital's new build market remains sought after in a geopolitically unstable world. Within the super prime market, supply is tightening and there are fewer projects, especially the bigger apartments above 200 square metres.

Looking further ahead, I think the market will be resilient due to confidence in London despite rising competition from other lifestyle cities in Europe such as Lisbon, Barcelona and Milan. London will remain a key gateway city.

The super-prime new build market will also keep expanding: it has moved increasingly towards Bayswater (W2) and pushed out to Southbank. Other new areas include White City, Fitzrovia, and Bloomsbury. The right opportunity has not yet appeared in Notting Hill but new development is happening in Holland Park.

RUPERT DES FORGES
Head of Prime Central London Development

Why is the supply of PCL new-build homes falling?

The landscape for development in prime central London has undergone significant changes in recent years and continues to remain challenging; notably due to the complexity and uncertainty of the obtaining planning consent, interest rates hikes, inflation, tax changes, volatility of construction costs and labour, economic conditions and shifting market dynamics.

As a result, there has been a sustained drop off in the number of newly consented schemes.

The declining momentum is constraining the super-prime development pipeline. Of particularly scarcity are units over 200 sq m, as new planning policy does not permit units to be consented over this size in Westminster.

Meanwhile, new home buyer demand continues from strength to strength, as London's enduring appeal remains a safe haven amongst global economic headwinds, for prime residential schemes. This is further exacerbating the declining development supply, which in turn is underpinning continued upwards pressure on pricing.

LYDIA APPEL
Associate, Development Strategy & Finance

What are the key planning issues constraining supply?

Planning in prime central London has always been challenging given the limited supply of land and the generally protectionist planning policies relating to heritage and conservation. The potential for taller buildings is severely restricted in Westminster and Kensington & Chelsea except in very specific locations. Housing mix and maximum unit size restrictions for new build homes also mean that we are seeing more smaller units and certainly fewer opportunities to create larger homes.

Politically – Westminster changing from Conservative to Labour – is shifting policies toward delivering affordable housing and enhancing local centre across Westminster.

Our planning team are seeing opportunities to convert offices to residential. Yet these are not widespread opportunities as planning restrictions exist that seek to retain the office uses with specific locations. In some situations, these opportunities are converting buildings that would originally have been built as residential but became offices over time. More complicated perhaps is converting purpose-built office buildings into high end residential partly due to the design challenges of converting deeper floor plates but increasingly in the context of net zero and the emerging retrofit first approach emerging through central London planning authorities.

It will be interesting to monitor the impact the City of London's intention to facilitate a greater volume of residential use within its jurisdiction and how this will capture PCL interest. This will generally build on locations where there are existing pockets of residential, but the variety of land uses in the City will likely change to support a more mixed seven-day economy and the opportunities to convert or redevelop existing buildings exists albeit noting the carbon implications.

STUART BAILLIE
Head of Planning

Front cover photo: 9 Mulberry Square, Chelsea Barracks, developed by Qatari Diar. Photograph by: Jack Hobhouse

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