

RESIDENTIAL RESEARCH



RICHMOND 2015

LONDON MARKET FOCUS

PARALLELS WITH PRIME
CENTRAL LONDON

THE SOUTH-WEST
LONDON RIPPLE EFFECT

PRICE PREMIUM FOR
PARK AND HILL VISTAS

KEY FINDINGS

Richmond prices rose 15.3% in the two years to June 2015, compared to 10.3% in prime central London

In the year to 30 June 2015, the average price per square foot paid through Knight Frank's Richmond office was **£1,053 compared to £750 in the previous year**

Richmond is one of four London boroughs with less than 1,000 private units in development, **reducing the oversupply risk**

The average sale price within 50 metres of Richmond Park's northern edge was £2.2 million in the three years to 30 June 2015 versus £1.4 million 50-300 metres away

Prices and rental values spike near Richmond Park and for properties with the best views on Richmond Hill



TOM BILL
Head of London Residential Research

“Richmond’s history and geography mean it combines the verdant English countryside with the grandeur and affluence of prime central London.”

IN FULL FLOURISH

The parallels between Richmond and affluent central London neighbourhoods date back hundreds of years. Changes in London’s prime residential market in recent years have only strengthened the relationship.

Corridor of affluence

Richmond Park is almost as large as London’s seven other Royal Parks combined.

The 955-hectare conservation area in south-west London, on which deer have grazed for more than 375 years, represents 49% of the park space in the capital owned by The Crown, including Hyde Park and Regent’s Park.

Richmond’s expansive greenery and picturesque river views are the most obvious reasons property buyers target the affluent town of about 22,000 people eight miles south-west from central London.

But there is sound logic beneath its leafy charms and Richmond has close historic, social and economic parallels with central London that drive demand for prime residential property.

First, its royal history means Richmond’s housing stock shares the same grand architecture as many traditional central London areas like Belgravia and Knightsbridge.

The area’s status as a royal residence dates back more than 700 years and was cemented at the start of the 16th century when King Henry VII built Richmond Palace. He named it after his ancestral home in Yorkshire and the town that developed around the palace took the same name. The deer arrived in 1625, when Charles I moved his court there to escape the plague in central London.

The result is a predominance of stately Georgian-era architecture for which there is perennial demand among buyers.

A series of prominent inhabitants underline the area’s notable history. Richmond has the fifth highest number of blue plaques of London’s 33 boroughs, a list headed by the central districts of Westminster, Camden and Kensington & Chelsea.

The plaques are located on buildings lived in by noteworthy figures, which in Richmond include the playwright Noel Coward, the artist Turner and the architect Sir Christopher Wren.

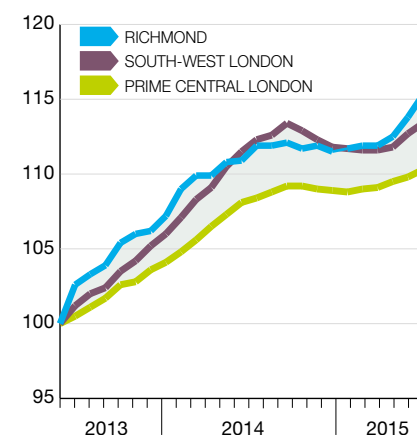
Wren’s most famous creation, St Paul’s Cathedral, can be seen from Richmond Park, a view that is London’s longest so-called ‘protected vista’ under local planning laws. Furthermore, the view from Richmond Hill across the River Thames is the only vista in the country protected by an Act of Parliament.

In addition to its history and architecture, Richmond has strong socio-economic parallels with affluent central London areas.

As figure 5 shows, a series of indicators covering household income, education and employment underlines the existence of a corridor of affluence running along the River Thames through south-west London from Westminster, through Kensington & Chelsea and Fulham and into Richmond.

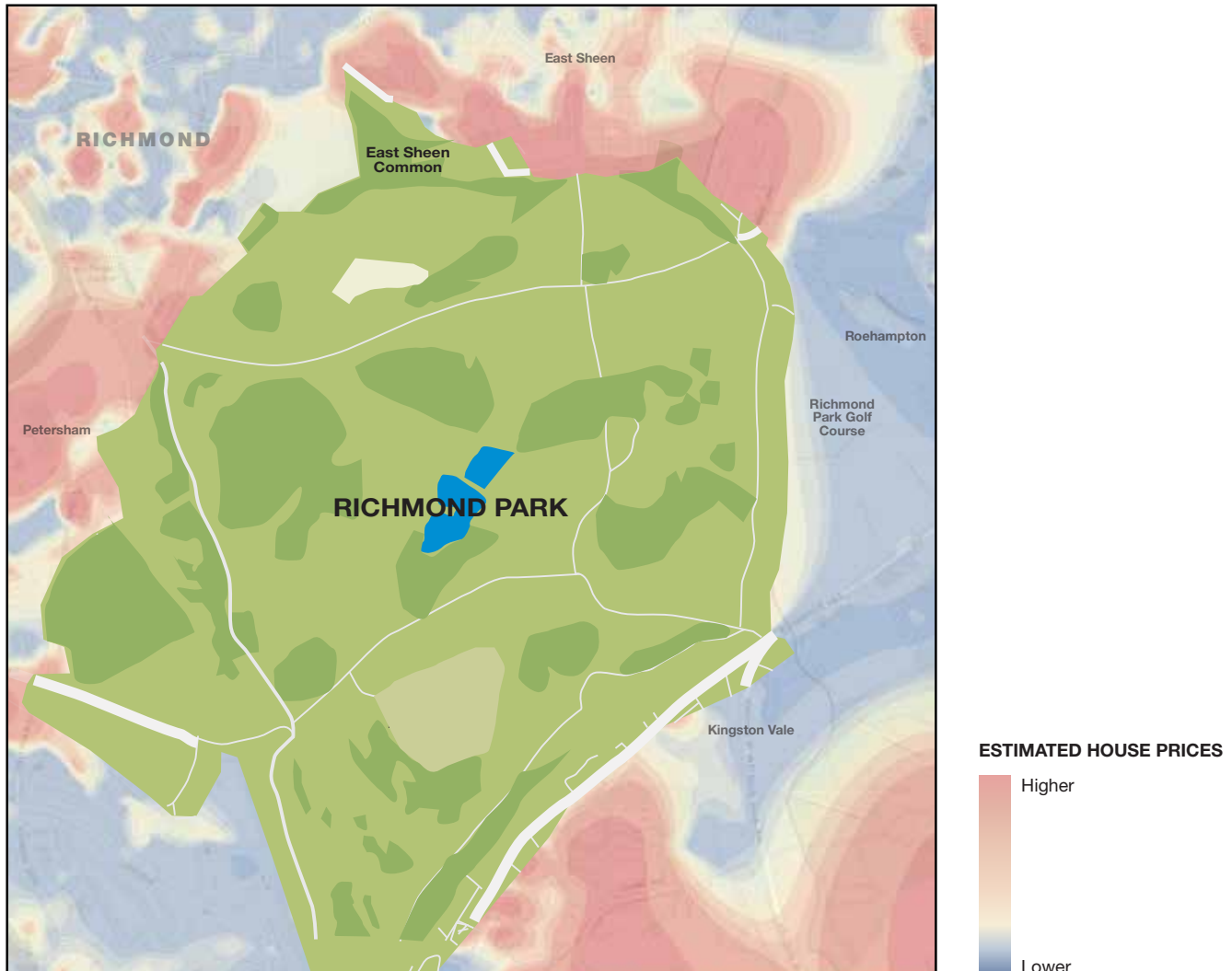
Richmond’s history and geography mean it combines the verdant English countryside with the grandeur and affluence of prime central London.

FIGURE 1
Richmond prices outperform prime central London and UK



Source: Knight Frank Residential Research / Nationwide

FIGURE 2 **The park premium**



The sales market

Richmond has benefitted from the changing nature of demand in the prime London property market over the last six years, a period that can be broken down into three stages.

During the first stage, prices in prime central London grew 53% between their post-Lehman Brothers low-point in March 2009 and the end of 2012 as turmoil in global financial markets drove international money to London seeking a safe investment.

The wave of capital was largely confined to the boroughs of Westminster and Kensington & Chelsea with Richmond prices growing 18% over the same period.

That changed at the start of 2013 when double-digit growth spread to outer

London as the UK economic recovery began to consolidate. This second stage marked the return of the so-called ripple effect in house price growth, where increases emanate outwards from central London, as they had done in previous property cycles.

As a result, Richmond prices rose 10.9% in the year to June 2014 compared to 1.5% over the preceding 12 months.

This growth was higher than the increase of 8.1% in prime central London and, as figure 1 shows, Richmond prices have outperformed prime central London and the wider prime south-west London market since 2013.

Richmond has also benefitted from rising numbers of buyers seeking the sort of 3,000 square foot-plus homes

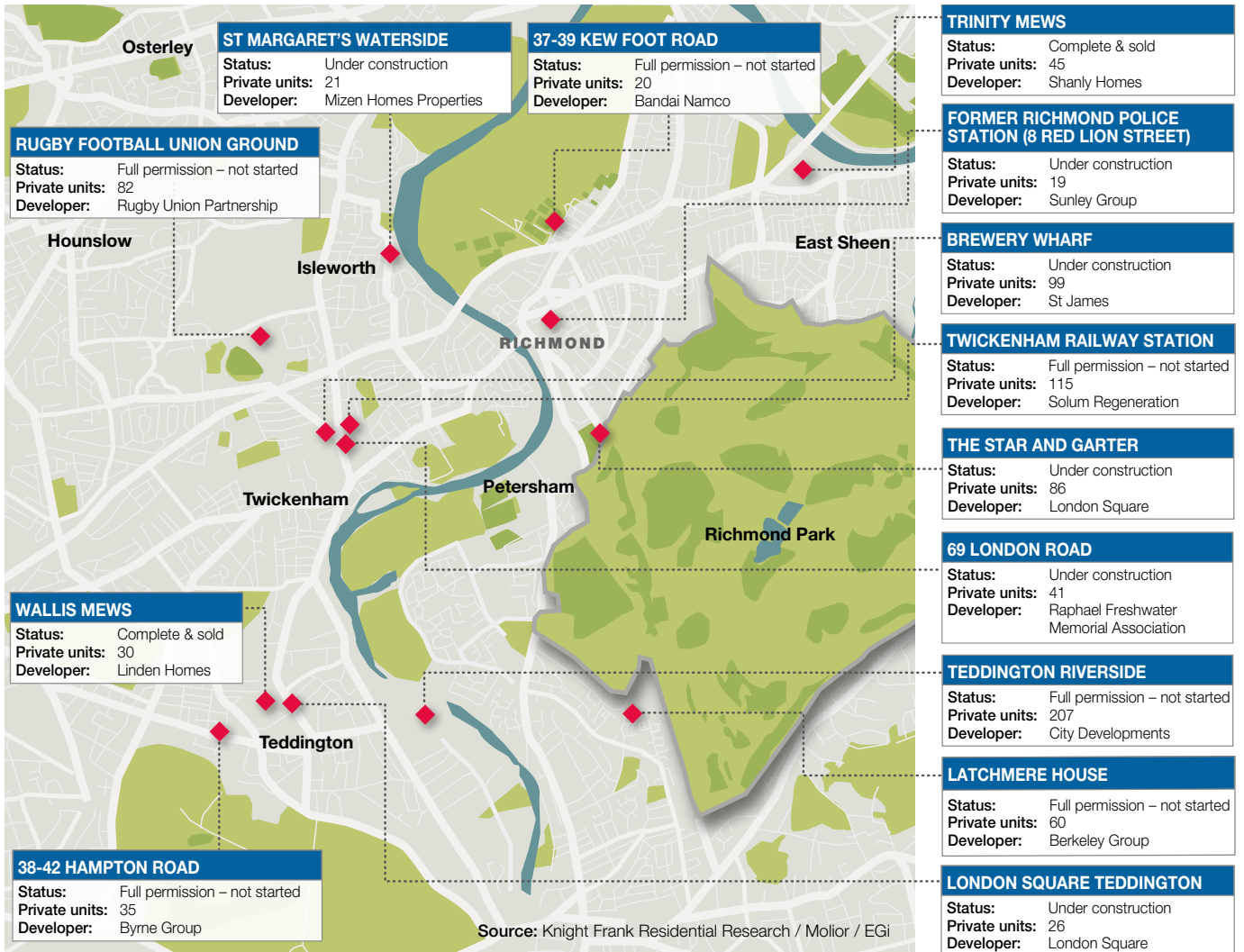
with outdoor space that have become increasingly difficult to find in central London.

Demand has grown as buyers from areas including Notting Hill, Chelsea and Kensington look further south and west for more space, something Richmond has in more abundance than most parts of London.

The trend for buyers in London seeking more square feet for their money is particularly notable in higher price brackets due to such strong growth in traditional markets like Knightsbridge and Belgravia between 2009 and 2012.

Given its parallels with prime central London, Richmond is well-placed to benefit as demand for higher-value property disperses away from the area surrounding Hyde Park.

FIGURE 3 Residential development pipeline in the borough of Richmond



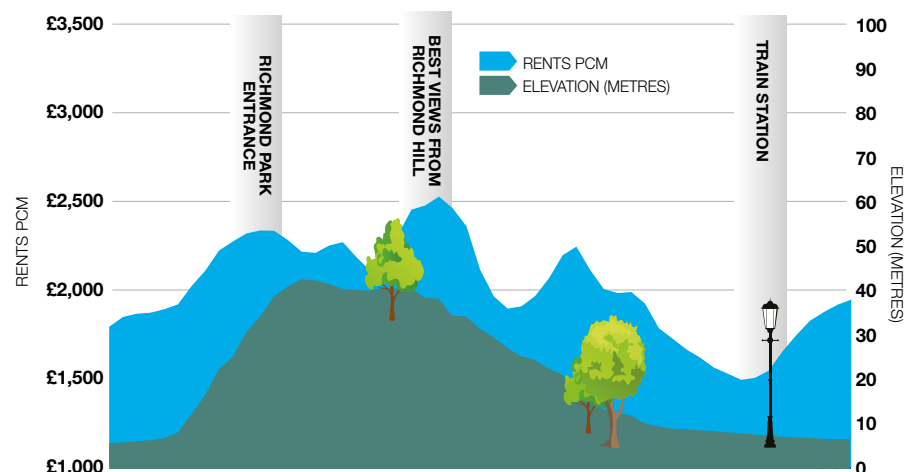
Indeed, Knight Frank data shows that in the year to 30 June 2015, the average price per sq ft in Richmond was £1,053 compared to £750 in the previous year.

A growing number of international buyers shows demand has broadened as well as deepened in Richmond. The percentage of UK buyers remains high but has edged down in recent years, as figure 6 shows.

The third and most recent stage in the history of the London property market has been marked by a greater degree of regulatory and political uncertainty.

Price growth across London slowed in the months before the general election in May 2015 due to the prospect of a 'mansion tax' and wider political uncertainty.

FIGURE 4 The Richmond Hill premium
Rental values for two-bedroom flats



Source: Knight Frank Residential Research / Vizzi Home (2014)

FIGURE 5
How Richmond compares among London's 32 boroughs

- PRIMARY SCHOOLS HAD HIGHEST AVERAGE SCORE FOR ACADEMIC ACHIEVEMENT (2013/14)
- FOURTH HIGHEST EMPLOYMENT RATE (2014)
- 3RD HIGHEST GROSS ANNUAL PAY (2014) (AFTER KENSINGTON AND CHELSEA AND WESTMINSTER)
- THIRD HIGHEST LIFE SATISFACTION SCORE (2013/14)
- THIRD HIGHEST PERCENTAGE OF WORKING AGE POPULATION WITH A DEGREE OR ABOVE (2014)
- SECOND HIGHEST PERCENTAGE OF CHILDREN TO ACHIEVE 5 GCSES AT A* TO C INCLUDING ENGLISH AND MATHS
- HAS ONE OF LONDON'S FOUR UNESCO WORLD HERITAGE SITES AT KEW GARDENS
- ONLY LONDON BOROUGH TO SPAN BOTH SIDES OF THE RIVER THAMES WITH 21 MILES OF RIVER FRONTAGE
- LOWEST AMBULANCE INCIDENTS PER 100 POPULATION
- LOWEST % WITH NO QUALIFICATIONS

Source: Knight Frank Residential Research / Greater London Authority / ONS

Furthermore, a series of tax changes in recent years, including a rise in stamp duty for properties worth more than £1.1 million in December 2014, has dampened activity.

However, the effects of these changes have been less marked in areas like Richmond because they do not follow the sort of exceptional and prolonged period of house price growth that took place in prime central London following the financial crisis.

Today, the market is benefitting from its relative affordability versus prime central London, which is driving growing numbers of buyers to Richmond and south-west London.

Higher stamp duty is a factor in decision-making and means some buyers have become more selective and price-sensitive with an increasing focus on the most prime areas and property types.

As the map in figure 3 shows, residential schemes in the London borough of Richmond's development pipeline tend to be on a smaller scale than prime central London.

Richmond is one of only four London boroughs to have less than 1,000 private units in the development pipeline. It has the third lowest number of units with planning permission or under construction, reducing the risk of oversupply. Richmond town centre in particular has very limited scope for new-build residential property due to the scarcity of space and conservation rules.

Developments include 207 private units at Teddington Riverside, the redevelopment of a former police station and a Royal Mail sorting depot at Brewery Wharf and the conversion of the Grade-II listed Star

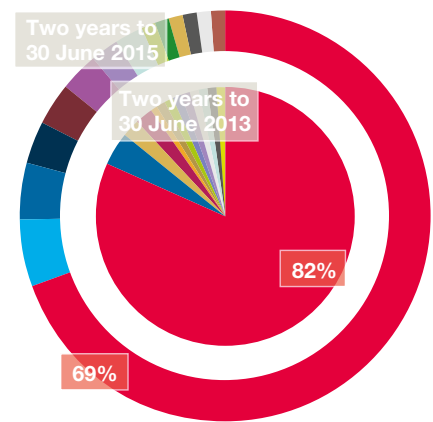
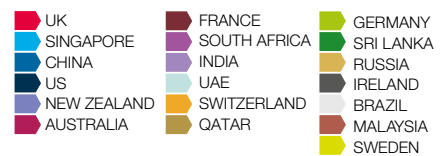
and Garter building near the entrance to Richmond Park.

Sale prices are notably higher in the immediate surroundings of Richmond Park, a trend that is particularly marked to the north-west and south-east, as the map in figure 2 shows.

The average sale price within 50 metres of the northern half of the park was £2.2 million in the three years to 30 June 2015. That is 57% higher than the average of £1.4 million for properties located between 50 and 300 metres away.

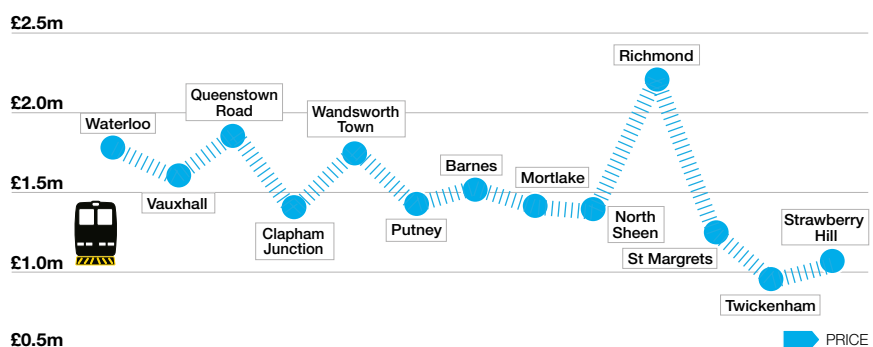
There is a similar correlation between house prices and proximity to the park further south.

FIGURE 6
Buyer nationality in Richmond



Source: Knight Frank Residential Research

FIGURE 7
Average asking price for a 4-bed house on the Richmond to Waterloo train line 1km radius from the station



Source: Knight Frank Residential Research



The higher prices to the north and west demonstrate the premium for the Richmond Hill area and its striking views, an effect that is underlined by rental value data in figure 4.

Richmond is a 19-minute train journey to Waterloo station, which is a quicker commute than many areas the same distance from central London. It is a similar journey time by car to London Heathrow, one of the world's major international airports.

The relatively short commute contributes to the premium that exists for Richmond houses compared to locations closer to central London, as figure 7 shows.

Based on asking price data for four-bedroom houses within a kilometre of each train station, the average price in Richmond was £2.13 million compared to the next-highest figure of £1.8 million in Queenstown Road, seven stops closer to Waterloo.

Rentals and investment

Prime rents in London are climbing steadily as the economic recovery takes hold, demand from corporate tenants improves

and London's status as a global financial centre consolidates. Annual rental value growth in Richmond has been broadly flat over the last 12 months and rental yields are typically between 3% and 4%, which is higher than prime central London.

Growth in south-west London is predominantly confined to new or newly-refurbished properties with a high-specification finish, which is where demand has historically been strongest in Richmond.

Corporate demand comes from a range of sectors including finance, IT and oil and gas and local employers include BP and PayPal. Tenants are predominantly British but there is a broad range of other nationalities including Japanese, American, German and Dutch.

Corporate lettings are typically between £4,500 and £5,000 per month but can exceed £12,000 for larger properties.

In a similar way to the sales market, there is a premium in Richmond's lettings market for the town's two main selling points – the park and the view, as rental data for two-bedroom flats in figure 4 shows.



THE EDUCATION EFFECT

The strong reputation of Richmond's schools is pivotal for many buyers and tenants.

Primary schools in the borough of Richmond had the highest average score in London for academic achievement during the 2013/14 academic year, ahead of Kensington & Chelsea.

A German school in Petersham and the American International University next

to Richmond Park are an added attraction for the growing number of international buyers in the areas (see figure 6).

Knight Frank research shows the average value of a home within a mile of one the top 50 best performing schools in England is 16.6% higher than average values in the surrounding Local Authority.



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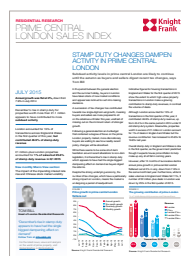
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