CUSHMAN & WAKEFIELD | CORE

PRIME CENTRAL LONDON SNAPSHOT

2019

PRIME CENTRAL LONDON

Overview

London's long-term position as a global property investment destination remains unchallenged and the appeal of Prime Central London (PCL) continues to be strong, despite the ongoing political and socio-economic uncertainty caused by Brexit.
We often hear that real estate is all about location. This is particularly true for PCL, where value preservation is primarily governed by location and restricted availability. Owners and prospective buyers recognise that prime locations are likely to be considered prime in the near as well as long term future. This sense of capital preservation and PCL's inherent appeal is perceived deeply by UAE and wider Middle East-based investors/end-users who have historically shown a keen interest in properties within the PCL districts - education, business and secondary homes being the primary demand drivers for this demographic.

> "With attractive exchange rates and uncertainty surrounding Brexit, interesting opportunities are being created for dollar pegged economies in the region. Currency advantage has now resulted in savings of nearly 25%, further compounded by softened sales prices (an average of 15%), making property purchase in PCL over 40% lower than June 2014 peak values for buyers trading in dollars. This represents long-term capital preservation opportunities for UAE based investors."

GBP to USD currency change 2014 - YTD 2019

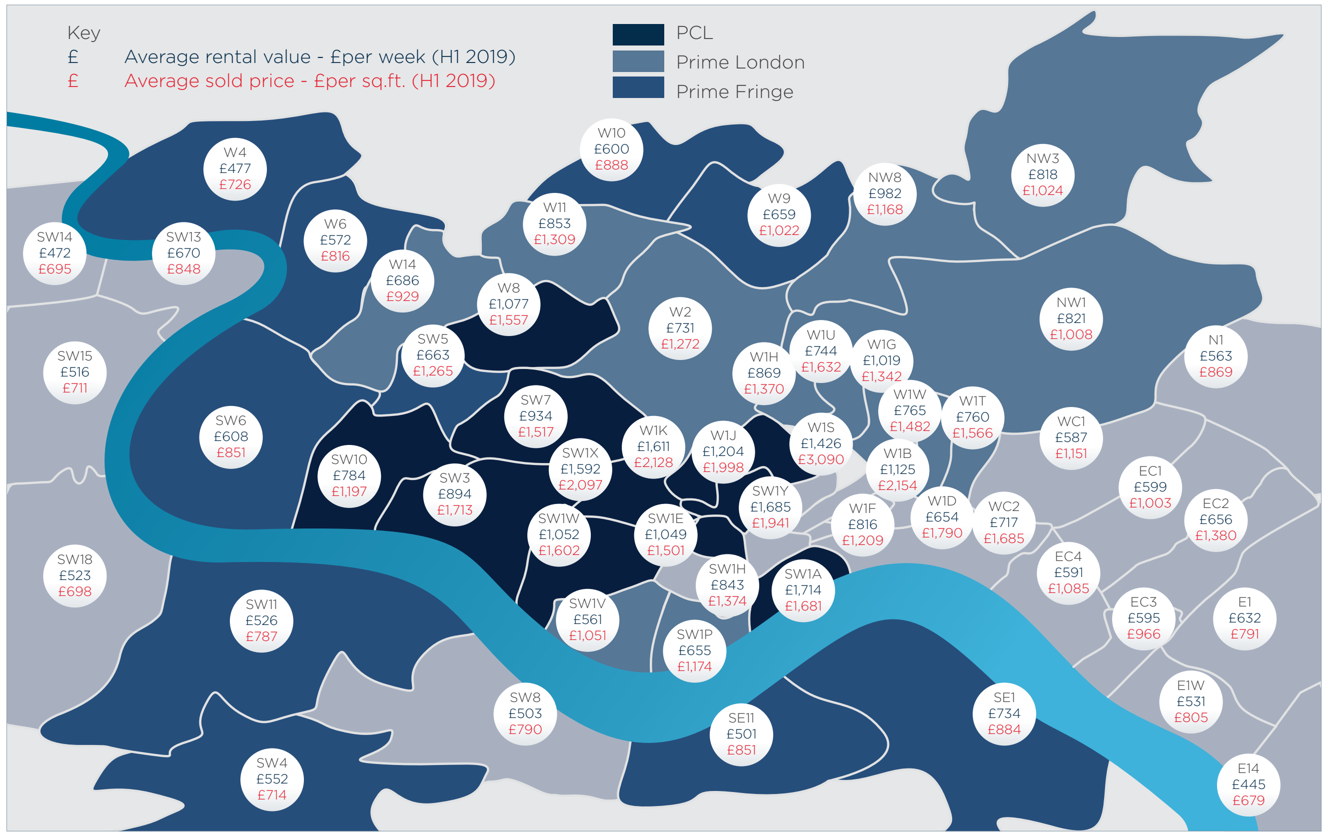
Source: www.xe.com

Prime Central London Price Trends

Flats	Sales prices in Q3 2019 (£)	Year on year price change	Price change since 2014 peak
Kensington, Notting Hill and Holland Park	1,281	3%	1%
Knightsbridge and Belgravia	1,631	-10%	-31%
Mayfair and St. James	2,150	-5%	-12%
Chelsea	1,367	-2%	-15%
South Kensington	1,524	-1%	-20%

Houses	Sales prices in Q3 2019 (£)	Year on year price change	Price change since 2014 peak
Kensington, Notting Hill and Holland Park	1,439	-11%	-20%
Knightsbridge and Belgravia	2,126	18%	-10%
Mayfair and St. James	2,249	6%	-8%
Chelsea	1,644	-14%	-14%
South Kensington	1,731	-4%	-19%

Prime Central London Map



Source: LonRes

MARKET TRENDS

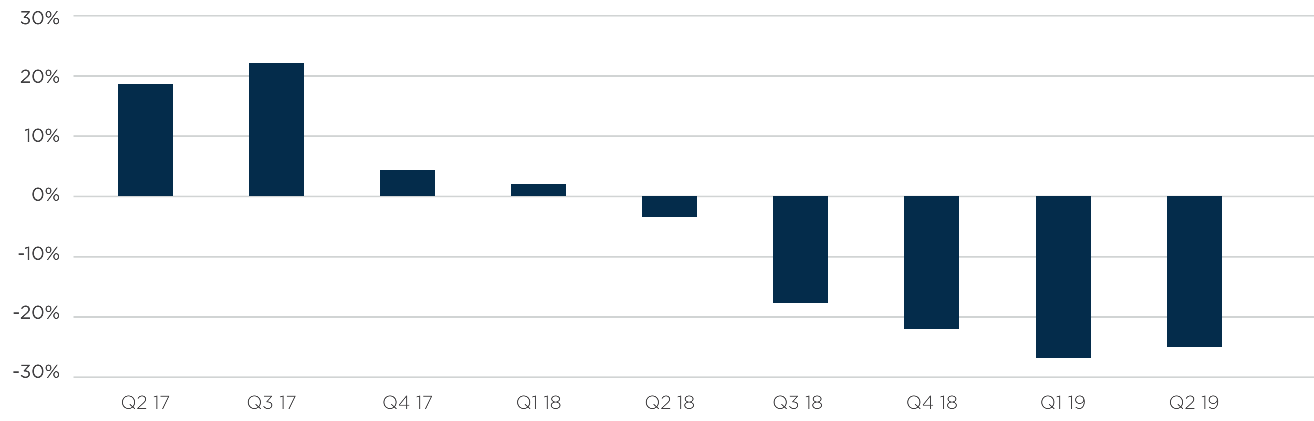
Higher sales volumes:

According to LonRes data, in Prime Central London the number of homes sold (volume of transactions) in Q2 2019 rose 3% on the same period last year. Buyers were predominantly purchasing properties below £2 million and above £5 million price points, with an increase in transaction volumes of 16% and 12% respectively in these price segments. On the other hand, a 20% fall was witnessed for properties priced between £2 million and £5 million. However, even with the rise in transaction volumes, annual change in sales prices are down by 5.3% year on year.

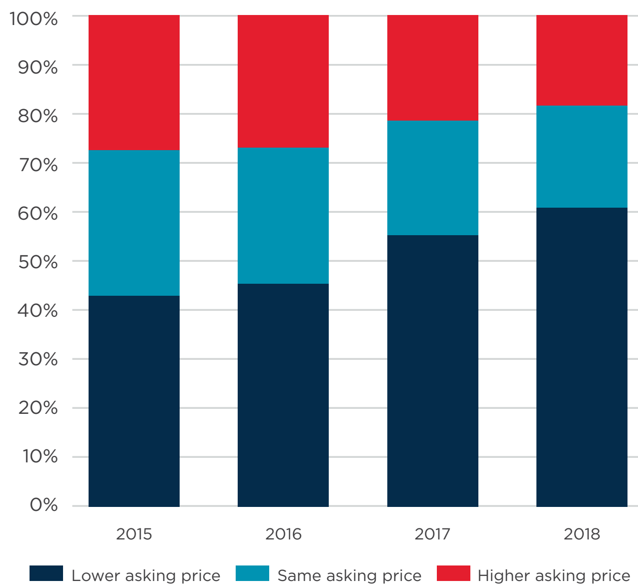
We at Cushman & Wakefield Core also have witnessed an increase in enquiries and transaction volumes from UAE based clients over the last 18 - 24 months, particularly in the Mayfair and Kensington districts.

The market continues to see a steady flow of high-end transactions taking place over the past year, including the recent well published residential sale in Regents Park for £95M, displaying confidence remains high. Although top-end sales are not key indicators of market conditions as the ultra-wealthy are always able to buck the trend, however, they do indicate that discerning buyers see value in the market returning.

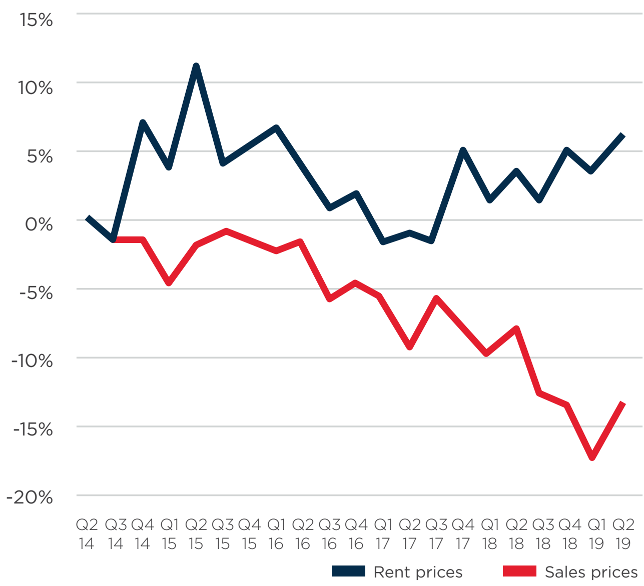
New Instructions - Annual Change



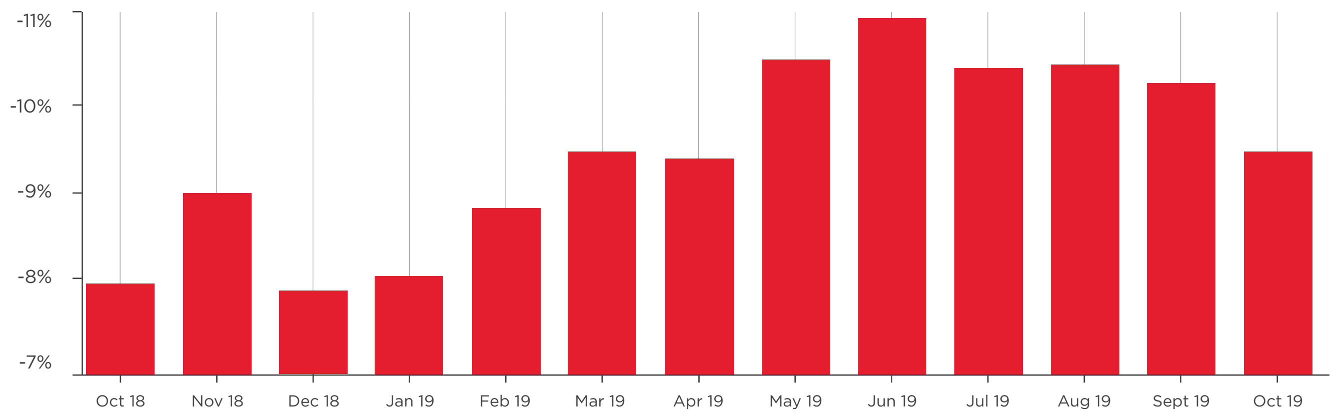
Properties Withdrawn and Relisted - Price Change by Year Relisted



Rents and Sales Price - Change Since Q2 2014



Average Difference Between Asking and Achieved Price



Source: LonRes

Demand Building Up

- Currently, we are witnessing demand building up as most buyers and sellers have been waiting over the last few years due to the socio-political uncertainty caused by Brexit.
- Low stock levels continue to be an issue, as new instruction volumes remain low. Interested buyers face a lack of choice with limited new stock reaching the market.
- According to LonRes, since 2014, 73% of properties withdrawn from the market have yet to be relisted for sale. Property prices at under £1 million were least likely to come back to the market, with just 24% being relisted compared to 35% of properties priced at £2 million or more.
- With lower levels of stock, we are starting to see a deceleration in price drops.

Pricing to Sell

- Sellers who have brought their homes back to the market (following a prior withdrawal) tend to be more realistic now with pricing.
- Of those properties withdrawn since 2015 and relisted since the start of 2018, 62% returned to the market at a lower price, while just 18% saw a price increase (some of these may have had improvements to décor or a lease extension)
- We have also witnessed an increased level of enquiries for off-plan properties as clients are favouring post-handover payment plans as a way to climb the property ladder while developers are providing substantial discounts for bulk purchases of more than three to four units.

Opportunities to Upsize

- With larger, more expensive properties recording significant price falls, the gap between smaller apartments and larger houses is narrowing, presenting the opportunity for end-users to upsize/ upscale.

High Yield Levels

- With sales prices dropping and rental values on the rise, average gross yields at 3.6% in Prime London are at a seven-year high.
- The market is witnessing an increase in renewals taking place instead of new lets, due to very limited new rental stock.
- The current scenario makes investing in Prime Central London an even better opportunity for dollar pegged economies despite the ongoing uncertainty of Brexit and its future impact.

UAE OCCUPIER DEMAND

Even if it is their first or secondary property in the UK, most of our UAE based clients are owner-occupiers, mainly looking for vacation/holiday homes or purchasing properties for their children.

The data published by Independent Schools Council Census has shown a significant rise of over 90% in Middle East pupils over the last decade in UK Schools and as of 2018, 58% of Middle East pupils parents are based overseas, while 42% are within the UK. The UK's education system, both at school and at university level are still considered the gold standard by many HNWI Middle East buyers and this continues to be a key decision driver for choosing London over other global cities, along with business and long-term capital preservation. With yield levels on the rise, this makes a strong case for an investment.

We are noticing preference from UAE purchasers very much remains for new build developments in London's prime areas. There is less of an appetite to acquire older properties that require redevelopment given the time and costs associated with such work.

For first time purchasers looking to enter the market, enquiries for new build developments are concentrated below the £2 million or above the £5 million mark. As these properties are predominately acquired for clients and their families to be used when they visit London, top of the line amenities and service/concierge offerings associated with these new developments continue to be a key draw.

Traditional UAE investors with established residential portfolios in London are increasingly looking to take advantage of the ongoing market conditions, acquiring upgraded or larger units in PCL which are now perceived to be fairly priced. This trend has led to a rise in enquiry levels in the ultra-prime end of the market for newly developed/redeveloped properties, priced between £10 - 20 million.

"We at Cushman & Wakefield Core advised on a number of prime transactions in 2018 and YTD 2019. Increasingly, UAE clients appear to have taken the view that the currency advantage and price softening outweigh the uncertainty surrounding Brexit. We have seen this sentiment continue over H2 2019 with Prime Central London properties remaining the most sought after."

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