CUSHMAN & WAKEFIELD | CORE

PRIME CENTRAL LONDON SNAPSHOT

2020/2021

EASING OF UK TRAVEL RESTRICTIONS, WELCOME NEWS FOR UAE BUYERS

The London Heathrow and DXB route over the last few years has been the second busiest route by passenger volumes from London and is a key international link contributing directly to global investment and tourism inflows. With the UAE accounting for nearly 45% of all passenger traffic from the Middle East to London Heathrow, the UAE's recent inclusion to the quarantine-free travel corridor list is welcome news for many UK and UAE residents, who were deterred to travel due to the previous two-week quarantine restrictions on arrival in the UK.

Due to London's continued appeal as a global investment destination and safe haven, UAE buyer interest for prime London properties remains steady despite the ongoing background of Brexit, the impact of COVID-19 and ensuing lockdowns.

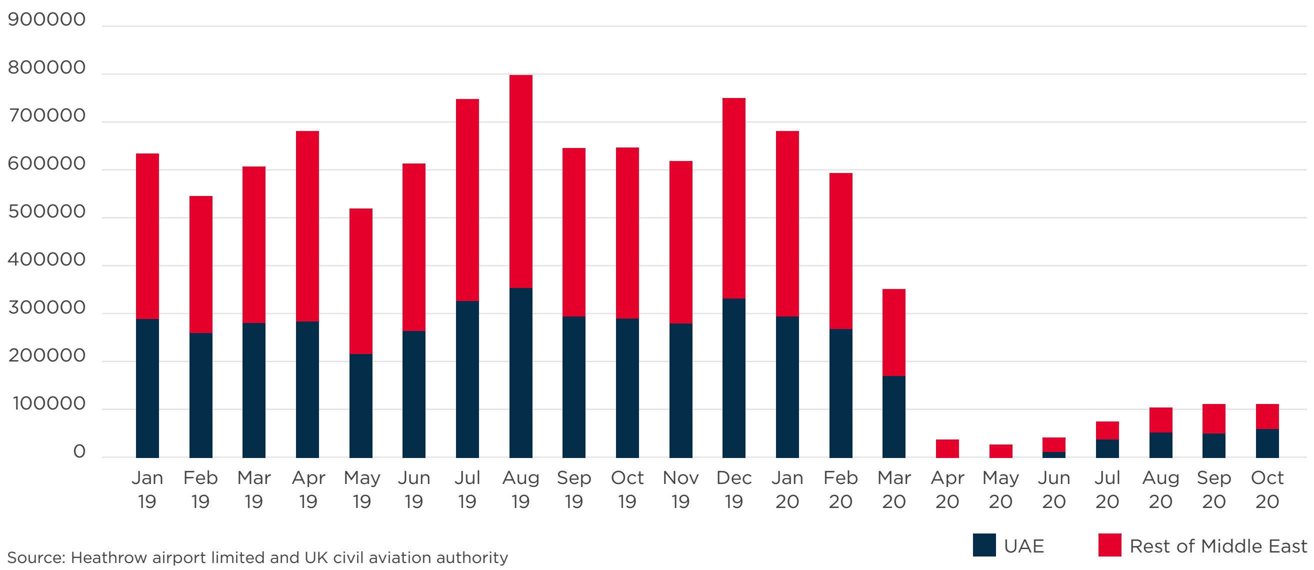
Whilst travel restrictions have limited the opportunity for UAE buyers to physically view properties for most of 2020, pent-up demand has build-up on the back of a rise in enquires in early Q1 2020 following the UK's elections results in December 2019. This is further compelled by a sense of urgency with the upcoming increase in purchasing costs for non-resident buyers and signs of recovery in the pound that had considerably weakened in recent years due to political and economic uncertainty.

With the travel restrictions in place since March 2020, we witnessed a steady increase in demand from UAE buyers as they identified opportunities with the aid of virtual viewings. However, most buyers, particularly those looking for properties at higher price points (above £5 million) were reluctant to conclude purchases virtually until easing of travel regulations permitted them to view these prime properties in person.

With the UAE and UK travel corridor now open, the value on offer in prime central London districts represents a lucrative buying opportunity for UAE buyers who have historically taken a longer-term view of this market. With UAE buyers awaiting to conclude purchases upon physical viewings, we expect to see a release of pent up demand as buyers look to transact prior to 1st April 2021 due to the subsequent change in stamp duty regulation for non-UK residents.

> "UAE buyers understand that prime London properties are currently priced nearly 20% lower than peak 2014 prices and have limited room for further contraction. They are also aware of the window of opportunity to capitalise on further savings by finalising transactions before the end of the stamp duty holiday on 31st March 2021, which coincides with the introduction of a 2% SDLT surcharge for non-UK resident buyers.
>
> That said, for UAE buyers who look at purchasing UK properties at higher entry price points, the £15,000 stamp duty saving is perceived as an incentive rather than key a decision driver. However, together with the anticipated introduction of the non-UK resident surcharge due in April 2021, overseas buyers are expected to be increasingly active in prime markets in the short term."

London Heathrow Airport Passengers by Region



Source: Heathrow airport limited and UK civil aviation authority

MARKET PERFORMANCE
RISING TRANSACTION VOLUMES RESULTING IN PRICE RECOVERY

The London prime residential market has picked up pace in transaction activity since the easing of UK's lockdown restrictions in May 2020 and continues to see a significant increase in activity in Q3 2020 with rising number of offers and exchanges. Historically, September witnesses a rise in new instructions as sellers bring their properties to market post summer and this year has been no exception despite current uncertainty. According to data from Lonres, August and September 2020 have been particularly busy for London's prime market. The number of new instructions in September this year almost doubled compared with the same time last year and was 38% higher than the September average between 2010 and 2019. This rising trend continues with October seeing the fourth consecutive monthly rise in under offer volumes – up 10% on October 2019.

As buyers and sellers become pragmatic on pricing in recent months with expectations on prices aligning, we have seen competitively priced assets in prime locations achieve asking prices.

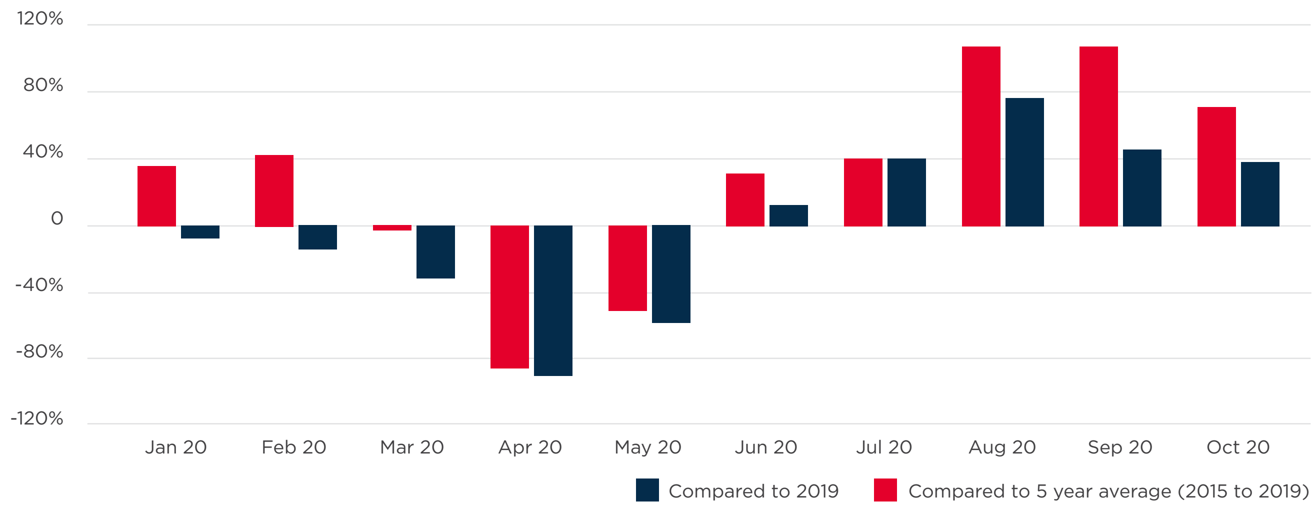
While England entered its second lockdown in November, the property market was spared any significant restrictions on property viewings during this period, and with lockdown restrictions easing as announced on the 2nd December 2020, we expect to see continued interest from domestic and overseas buyers.

The London market has also seen a shift in buyer demand, with houses being more in demand than flats, predominately driven by domestic buyers incentivised by the stamp duty holiday and the need for further space in the wake of COVID-19. This is evident with higher-end prime properties, particularly family homes seeing strong growth in volumes sold. Splitting out transactions in October 2020 by flats and houses shows flat sales fell 2% compared with the same period a year ago, whereas the number of houses sold increased by 25% over the same period.

The market over £2 million was busier in October 2020 than the market under £2 million. With a 20% annual increase in sales of properties sold for between £2 million and £5 million and a 17% increase at above £5 million. New instructions continued to increase in October and are up 68% on the same month a year ago and 37% higher than the October average over the previous five years.

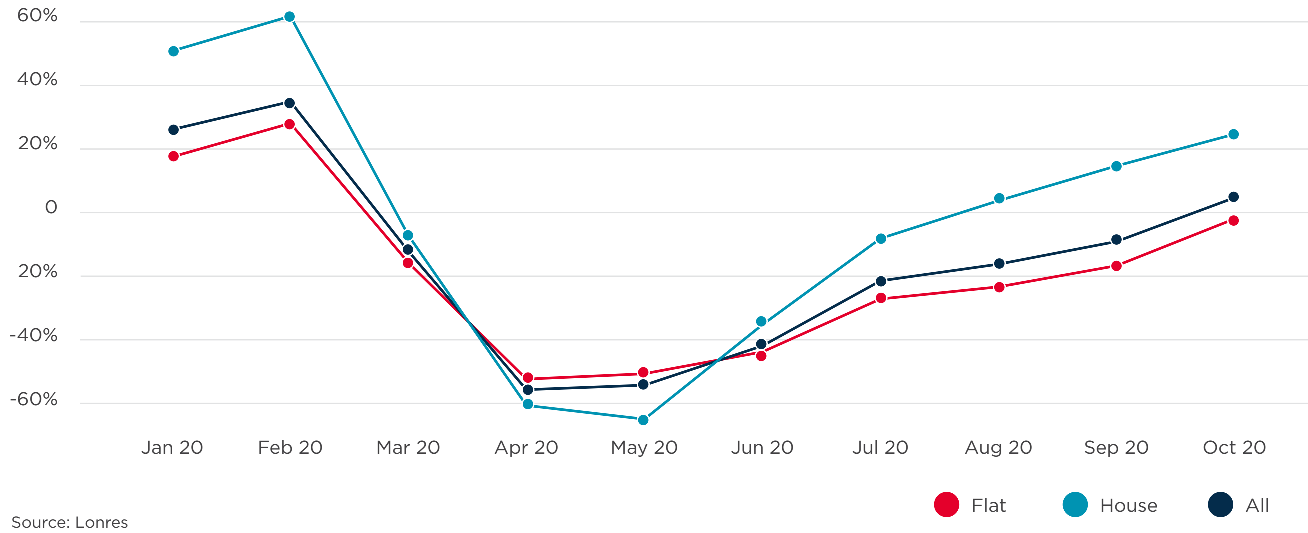
Despite the rise in activity levels and more supply being brought online, the market remains price sensitive. We foresee competitive pricing remaining key to support the current momentum, particularly given the economic uncertainty.

New Instructions - Annual Change and Comparison with 5 Year Average



Source: Lonres

Transaction by Property Type - Annual Change



Source: Lonres

Currency GBP to USD

Source: XE.com

MARKET OUTLOOK

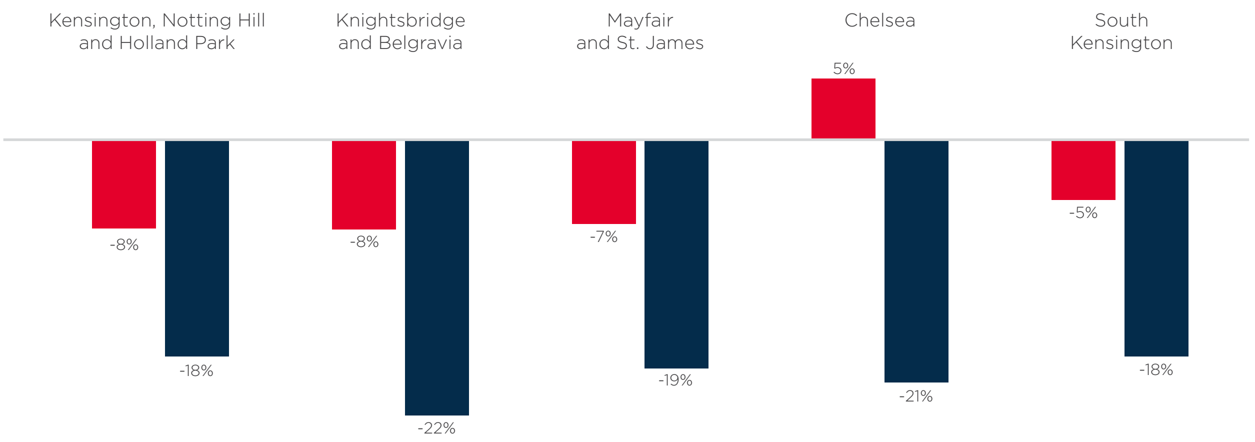
While London remains a preferred destination for travel and an established investment safe haven, UAE investor sentiment is currently driven by ease of travel to London and the opening of air corridors provides relief to many investors who have been waiting to travel to conclude transactions. We foresee the realisation of underlying and pent-up UAE investor demand as UAE buyers look to secure their purchases before the start of April next year and capitalise on this window of opportunity of multifaceted savings.

Prime central London properties have historically recovered fastest from a downturn and we see no reason why this will not be the case again. The opening of travel corridors, easing of lockdown measures and the news of vaccine bodes well on global travel which is inherently linked to prime central London's overseas driven market performance.

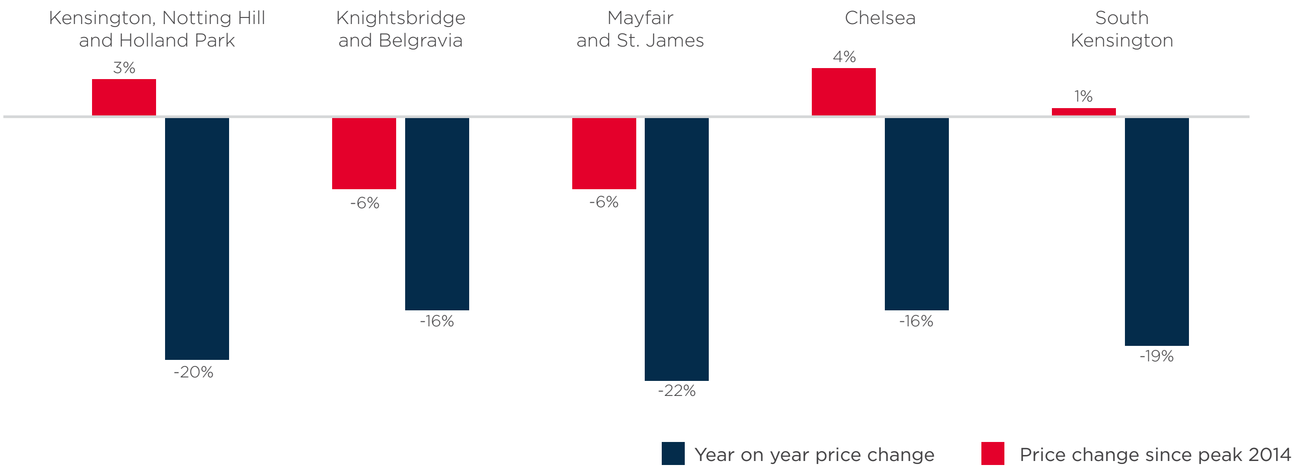
Furthermore, with the UK being the first western country to authorise a coronavirus vaccine and the rollout expected to commence mid-December, we see this as a push towards driving footfall back into central London.

Stamp duty and Brexit were the two factors that dominated discussions for London's prime housing market pre Covid-19. We expect the stamp duty holiday announced in July 2020 to stabilise price falls over the period to the end of March 2021. Most market commentators are in a broad consensus that prices in prime central London are expected to recover in mid to late 2021 as global mobility improves and the wealth eroded by COVID-19 is gradually restored with a rebound in capital markets. As witnessed since June 2020, early signs of recovery are already being evidenced by a consistent rise in instruction and transaction volumes coupled with stabilising capital values.

Prime Central London Price Trends - Flats



Prime Central London Price Trends - Houses



Source: Lonres and Cushman & Wakefield Core Research

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