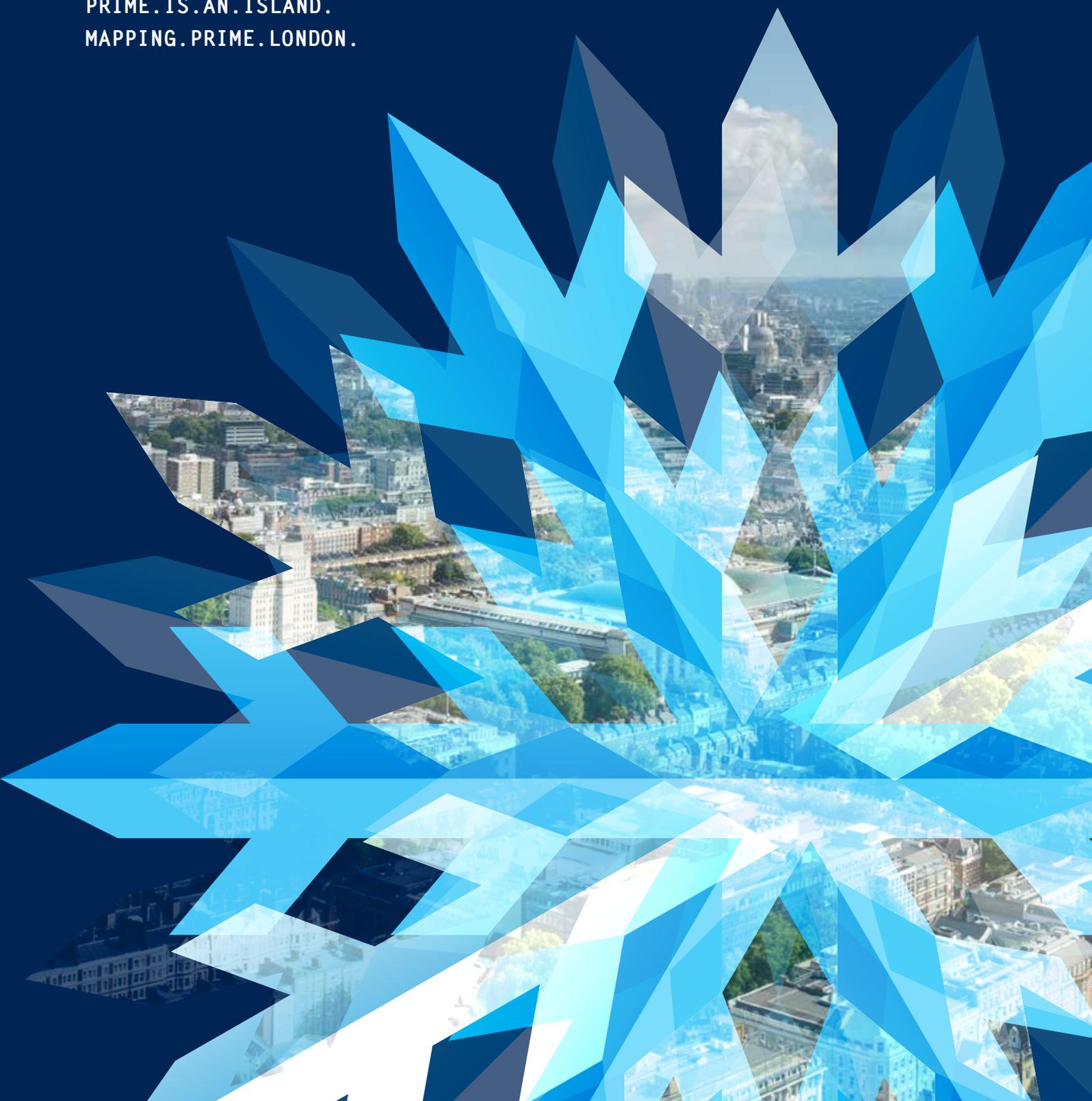


# RESIDENTIAL. REVIEW. WINTER 2019.

LON  
RES

OPENING THOUGHTS  
SALES.MARKET.OVERVIEW.  
LETTINGS.MARKET.OVERVIEW.  
PRIME.IS.AN.ISLAND.  
MAPPING.PRIME.LONDON.



# OPENING THOUGHTS...

LON RES

RESIDENTIAL REVIEW.  
WINTER 2019.

The media has been reporting a slew of sales at the top end of the London market, notably the sale of a 19,000 sq ft house in Carlton Gardens with an asking price of £95m to an American hedge fund manager, in what could possibly be the worst kept secret in the market.

He also bought an apartment at the newly developed 220 Central Park South in Manhattan for \$238m. Top end sales are not key indicators of market conditions as the ultra-wealthy are always able to transcend economies. They may, however, indicate that these people see value in the market returning.

With the prime London market seeming (to us), to be moving again, we look at the number of properties under offer, withdrawn status and sales of properties that may have been on the market for a long time. All these show us whether there is ambition from purchasers and whether volume is picking up at the start of the year. Additionally, the expectation from estate agents is that low stock will continue to dominate the second-hand market for the next few months.

The tipping point for the return of the sales market assumes a discount of about 20% against house prices at their peak, in 2014. The £2.5m house or flat becomes £2m which allows the purchaser to factor in stamp duty land tax (SDLT) and provide insurance against uncertainty in the market. The resistance that was met by vendors refusing to sell with that margin, has weakened somewhat in the last six months and these have been translated into sales, especially in the first few weeks of the new year.

In the lettings market the tenant fee ban on all new lets comes into force on the 1st June. Sadiq Khan has made a play to make rent control a key plank of his 2020 re-election bid. This is not a new idea as Scotland introduced Rent Pressure Zones (RPZs) in 2017. An RPZ is a designated area where a cap is set on how much rents are allowed to increase in a given year. This legislation will probably shape Sadiq Khan's idea but he will need to build a substantial database to be able to prove whether rents are rising too quickly, and this is likely to take several years. Whilst the legislation is in place in Scotland, there are currently no RPZs in force.

For those looking to invest in London, returns are low, in some instances they currently stand at 2%. With uncertainty in the London market and the relatively high cost of new build housing in the capital, focus is shifting to other areas in the UK, particularly Manchester, where returns

of 5.5% to 7% are perfectly achievable for a far lower capital outlay.

Finally, no commentary would be appropriate without mention of the B word, and an appropriate statistic. Apparently, the Department for Exiting the European Union spent £936,963.14 in November on interpreters, to help us understand better our negotiations. I don't understand why we would pay that bill directly to the Council of the European Union. We should have brought our own interpreters!



**WILLIAM CARRINGTON**  
CHAIRMAN  
wcarrington@lonres.com



**ANTHONY PAYNE**  
MANAGING DIRECTOR  
anthony@lonres.com

The analysis for this publication was written and compiled by Marcus Dixon, Head of Research, LonRes. This issue was produced in January 2019 using data to 31 December 2018.



**MARCUS DIXON**  
HEAD OF RESEARCH

## FOREWORD

There is conflicting news on the state of the prime housing market. Despite the Brexit fog having turned into more of a pea-souper we have seen a number of high value deals being agreed in the last few months. Yet, while the world's wealthy appear to be seeing value and opportunity in prime London, many are still postponing their decision to buy.

The prime rental market continues to benefit. Despite fewer new lets agreed, owing to an increase in renewals, stock

levels are low and competition among prospective tenants is leading to increases in achieved rents in most central London areas. Fewer landlords are needing to reduce their asking prices and discounts have fallen back.

What will 2019 hold? That's an even tougher call. On sales prices our subscribers are split, 45% expecting prices to fall in 2019. The outlook for rents is more positive, with only a third expecting rents to have fallen by the year end and just 24% expecting fewer new lets in 2019 compared with 2018.

# SALES. MARKET. OVERVIEW.

As we go to press, we are still waiting for any real clarity on how, when or indeed if, we will leave the EU.

Without this, our agents expect Brexit will remain the biggest drag on demand in 2019. In the latest LonRes survey, 68% of respondents expected Brexit uncertainty to have the biggest impact this year, up from 58% last quarter.

Apprehension over the economy and the impact on house prices remains of sufficient concern for vendors and buyers alike to withdraw from the market and wait. The number of sellers withdrawing their homes from the market has increased. Indeed, in 2018 more homes were removed from the market due to a withdrawal than a sale.

Fewer vendors are bringing their homes to market, with new instructions down 20% in Q4 2018 compared with the same period a year earlier.

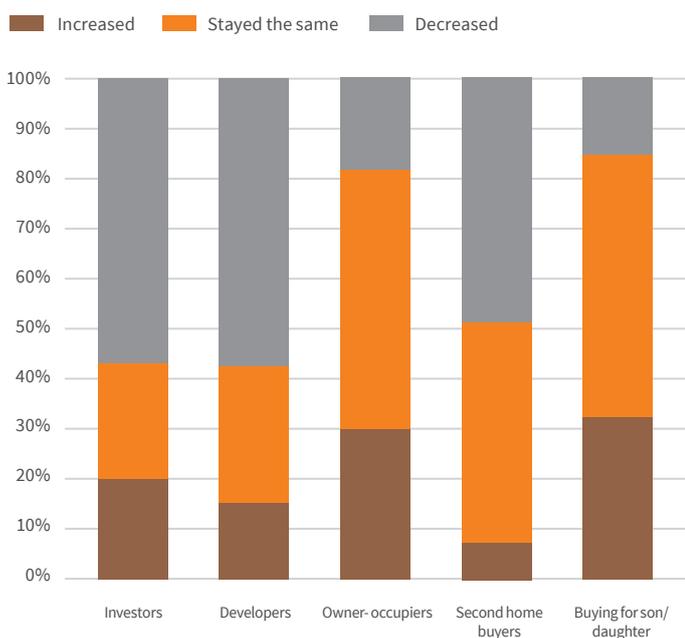
That said, there was some positive news regarding market activity in the second half of 2018. We saw a 6% increase in homes going under offer, following a fall in the first half of the year. The number of homes sold in the last three months of 2018 did exceed the first three, when transactions dropped 21% on 2017 levels. However, transactions in the fourth quarter remained 13% down on Q4 2017. This is lower than we had hoped. But agents are reporting an increase in the time between under offer and exchange, which could mean some of those deals struck in the latter part of 2018, could well, cold feet permitting, still translate into completed sales in Q1 2019.

Yet, for those who do choose to transact there are opportunities. Achieved prices across our three prime areas fell 5.7% in

Q4 2018 compared with the same three months a year ago. Find a vendor keen to sell, and buyers could be paying significantly less than at the peak of the market four years ago. Buyers of homes in prime central London paid 14% less in Q4 2018 compared with the 2014 peak. Even for those with something to sell, the cost to trade up has fallen. For overseas buyers there are opportunities too. Those buying in US\$ are paying on average 36% less in Q4 2018 than at the peak of the market in 2014.

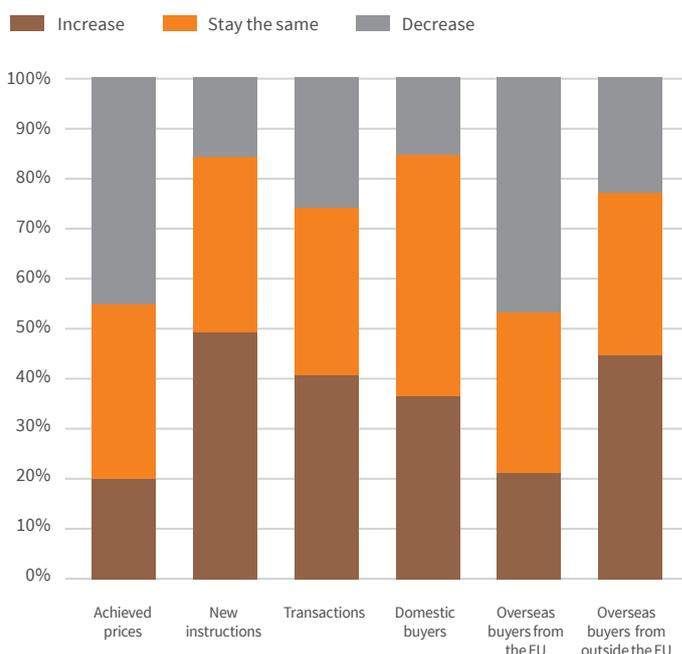
Looking ahead our agents remain split on the outlook for 2019, 45% expect prices to be lower by the year end, but most agree that it looks to be a challenging year. That said, homeowners in prime London are not in the same position as in previous downturns. Few are burdened with high loan-to-value mortgages, interest rates remain at a near all-time low and many owners have built significant equity buffers in their prime London homes.

## Change in demand by buyer type – last 12 months

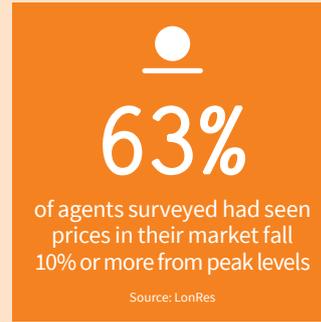


Source: LonRes agent survey Q4 2018

## Agent expectations – next 12 months

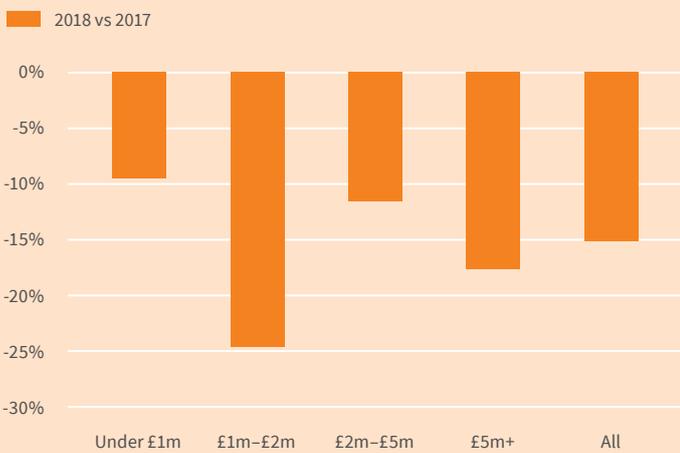


Source: LonRes agent survey Q4 2018

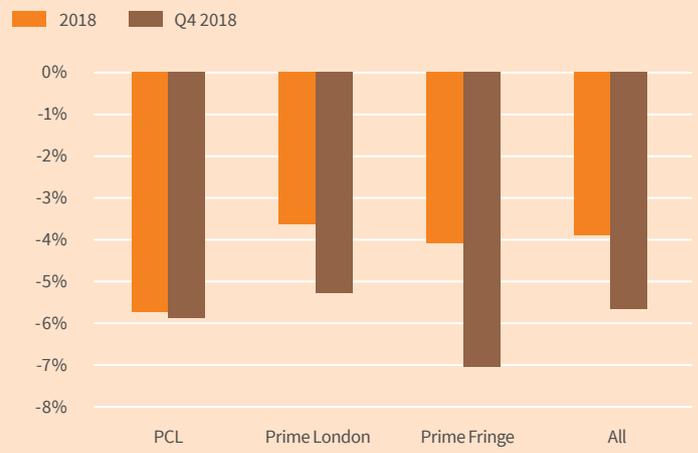


## KEY MARKET TRENDS IN SALES

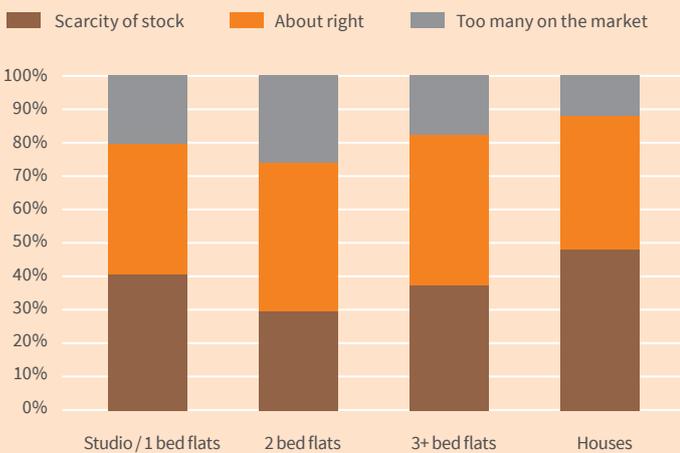
Annual change in transactions by price band – three prime areas



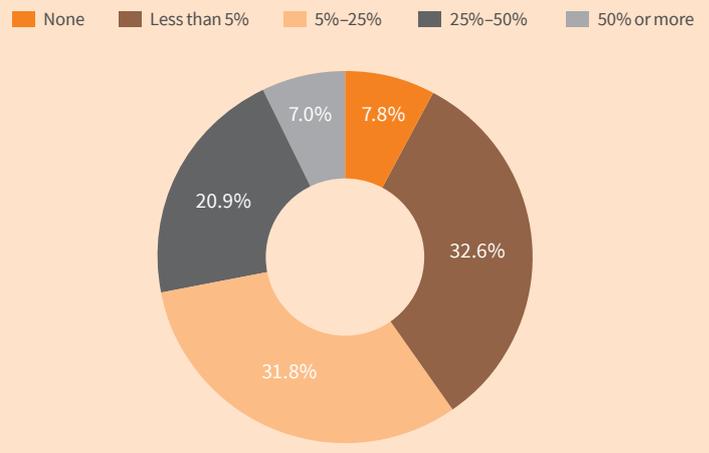
Annual change in achieved prices



Agents view on stock levels by property type



Proportion of buyers using a buying agent



Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8  
 Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14  
 Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

# LETTINGS MARKET OVERVIEW

Political uncertainty, which continues to impact activity within the sales market, is driving prospective buyers into the prime rental market instead.

Achieved rents rose in the fourth quarter, up 1.9% across our three prime catchments. Only prime central London reported a modest fall in achieved rents, down 1% compared with Q4 2017.

According to the most recent LonRes survey, 58% of agents saw an increase in tenants who had previously been looking to buy, just 8% reported a fall. However, despite poaching prospective buyers across into the rental market, new lets agreed continued to fall. As we reported last quarter, an increase in renewals again resulted in fewer new lets agreed in Q4 2018, down 17% on the same three months a year ago.

The falls were more pronounced in the second half of 2018, with an 11% reduction in new lets compared to a 2% fall in the first six months.

Fewer tenants moving, coupled with a lack of fresh buy-to-let stock reaching the market is contributing to the lower levels of new instructions experienced in 2018. Over the course of the year 13% fewer properties reached the market to let.

There are less properties on the market too – volumes were down 5% annually at the end of 2018. Meaning those properties which reach the market are finding tenants more quickly. In Q4 2018, 30% of properties let in prime areas of London had a new tenant within a month of being listed to let. This is up from 23% in Q1 2018 and the highest for four years. Indeed, the latest LonRes survey saw 80% of agents reporting an undersupply of studios and one-bedroom flats in their area.

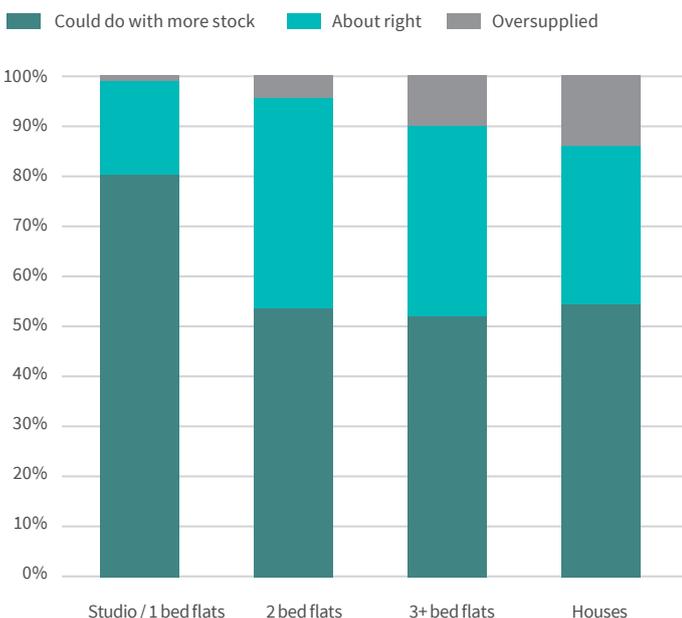
Greater competition for new rental stock has meant lower discounts and less need to

reduce asking rents. In Q4 2018 tenants negotiated an average of 4.9% off initial asking rents, down from 6.4% a year earlier. Over the same period the number of properties requiring a reduction in asking price fell from 41% in Q4 2017 to 31% this quarter.

Despite a relative lack of new stock, the majority of landlords remain cautious and are choosing not to increase rents for existing tenants. In Q4 2018, 72% of agents surveyed said most of their landlords were not changing the rent they were charging tenants on renewal.

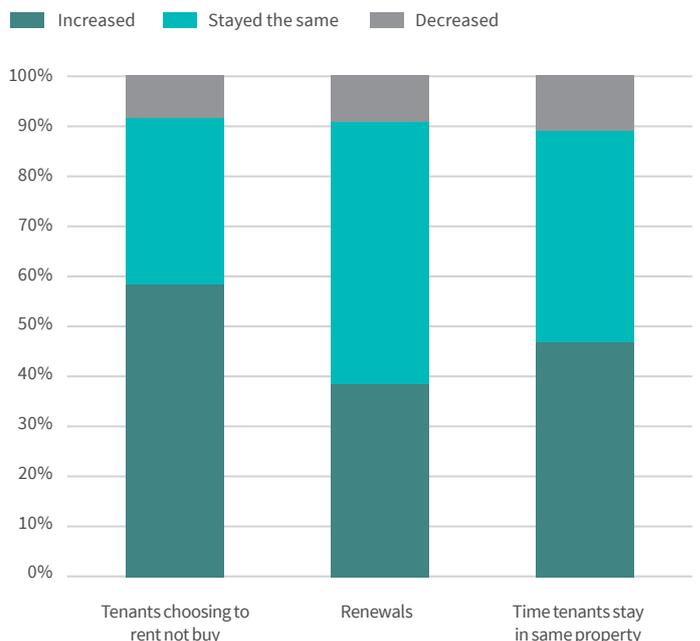
With decisions over how, or indeed, if we leave the EU still rumbling on, the appeal of the prime rental market, possibly to the detriment of sales, looks set to continue in 2019. Our agents agree, with the majority expecting an increase in both the number of new lets agreed and achieved rents this year. Just 25% of agents expect to see volumes let and achieved rents fall by the year end.

## Which types of properties are most under / over supplied?

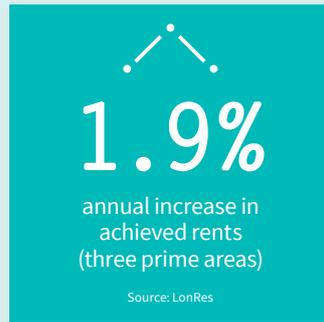


Source: LonRes agent survey Q4 2018

## Change in market conditions – last three months



Source: LonRes agent survey Q4 2018



## KEY MARKET TRENDS IN LETTINGS

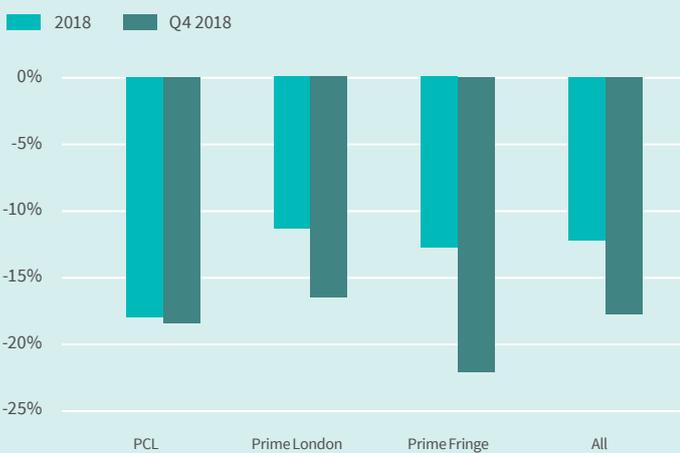
% of properties let within a month of listing



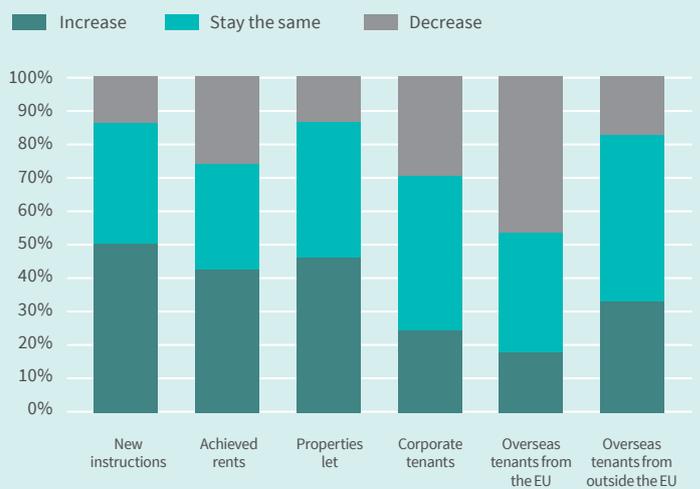
Annual change in LonRes Prime London Lettings Index



Annual change in new lets agreed



Agents expectations – next 12 months



Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8  
 Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14  
 Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

# PRIME.IS. AN.ISLAND.

## How the prime locations of London have evolved

By William Carrington of LonRes and Rupert des Forges of Knight Frank

Thirty years ago it was very simple. If you wanted the cachet of the best London address, your choice was Eaton or Cadogan Square and was no more complicated than whether your preference was for stucco Georgian or red-brick Victorian. But then everything changed. In the mid-90s a new breed of buyer entered London's prime market. People who, while prepared to compromise on location, were not prepared to compromise on the type of property or lifestyle they wanted to buy into.

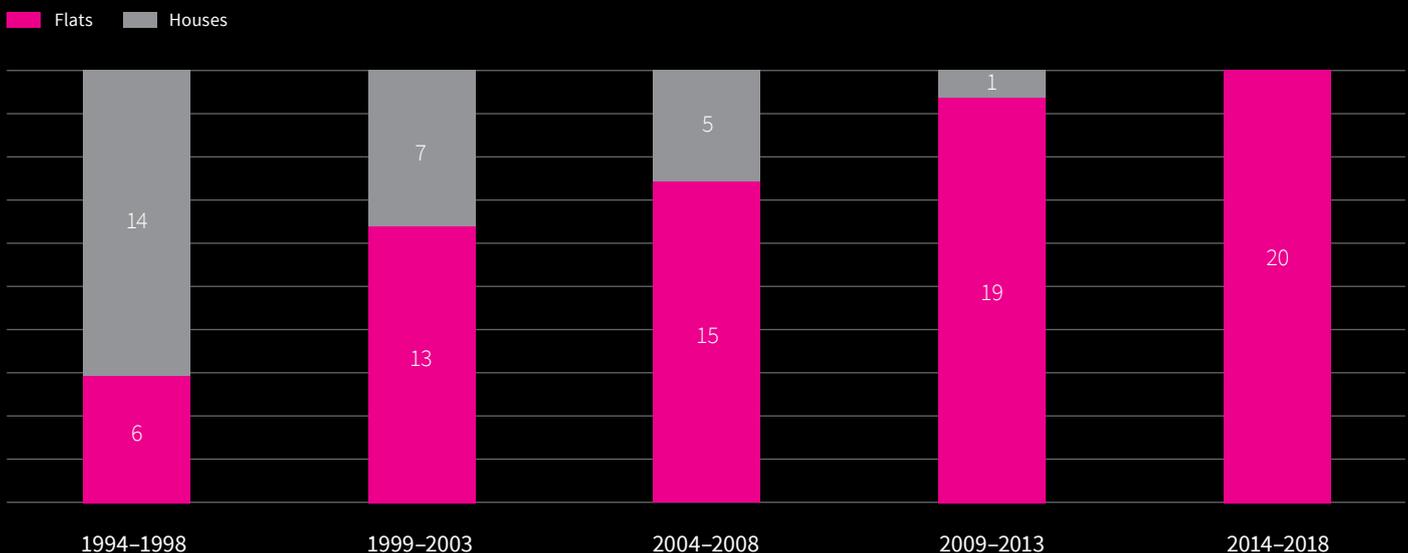
Today, London's super prime addresses have shifted, not just in terms of location but in terms of property type too. The super-prime address of today is essentially led by individual new builds, rather than specific streets. This is a trend that can be traced back to The Knightsbridge in 2001, which, although in the heart of SW7, was by no means in a prime position. What it lacked in location however, it more than made up for in the services and lifestyle it offered.

The Knightsbridge kick-started a whole host of developments designed for a new breed of prime London buyer. Buyers who were young, global, far more transient and ever-more cash-rich. And their numbers have continued to grow. These are buyers who benchmark their homes against the best global hotels they stay in, they know what service really is and are prepared to pay for it. And they have helped re-define the traditional view of prime London, from smart houses overlooking leafy garden squares with room for staff, to lateral apartments in slightly secondary locations offering world-class concierge facilities...

This is an extract only. The full version of *Prime is an Island* will be coming soon to [LonRes.com/latest](http://LonRes.com/latest). To pre-order your hard copy please email [marketing@lonres.com](mailto:marketing@lonres.com).

### Top 20 highest value sales per square foot - by property type

There has been a significant shift from houses to flats. Comparing the highest prices paid per square foot shows flats accounted for all of the top 20 sales over the last five years, up from just 30% 20 years ago.



Source: LonRes

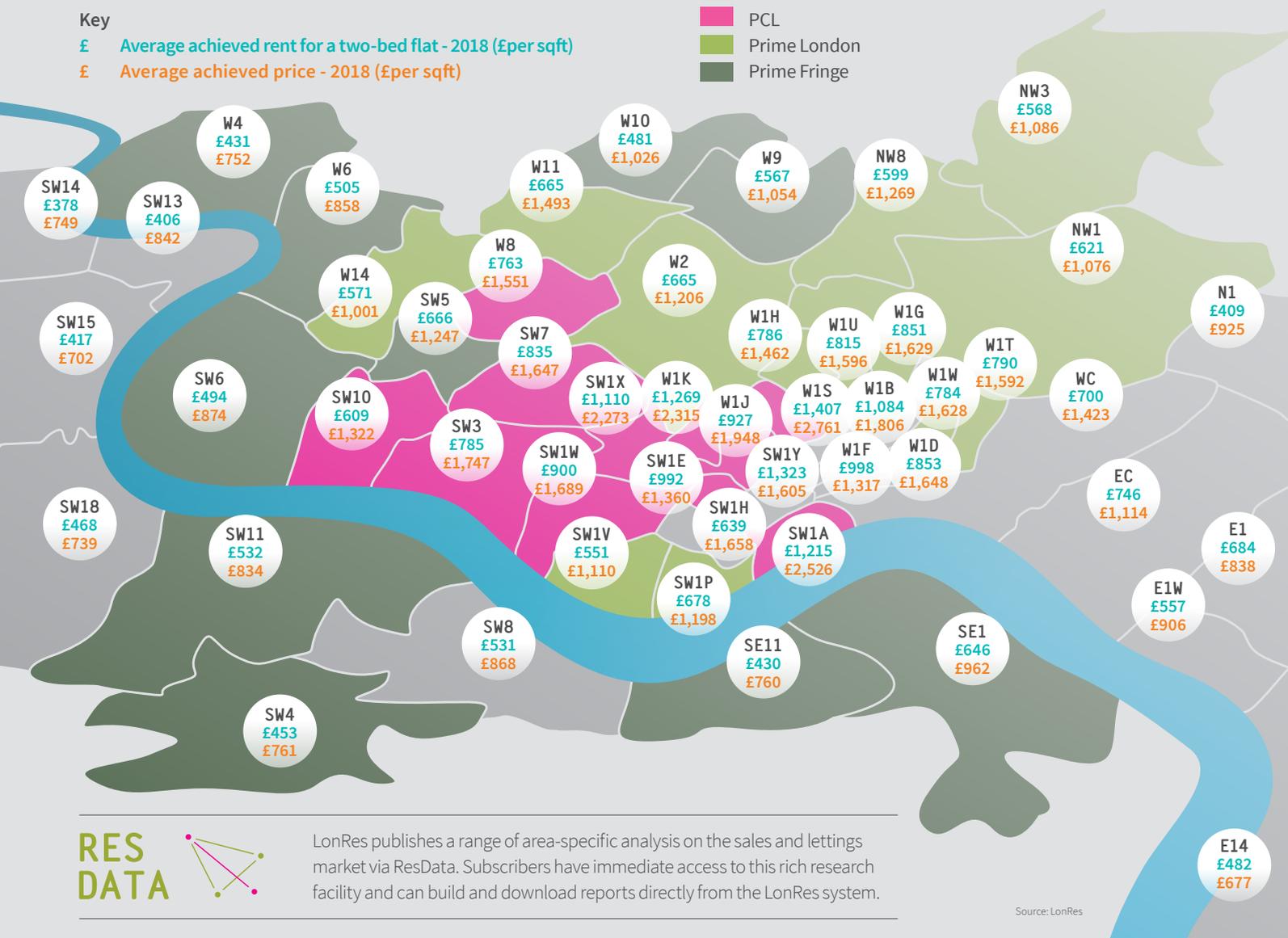
# MAPPING. PRIME. LONDON.

Weekly rent achieved for two-bed flat and average price £per sqft

**Key**

£ Average achieved rent for a two-bed flat - 2018 (£per sqft)  
 £ Average achieved price - 2018 (£per sqft)

PCL  
 Prime London  
 Prime Fringe



LonRes publishes a range of area-specific analysis on the sales and lettings market via ResData. Subscribers have immediate access to this rich research facility and can build and download reports directly from the LonRes system.

Source: LonRes

## GET.IN. TOUCH.



**WILLIAM CARRINGTON**  
CHAIRMAN  
wcarrington@lonres.com



**ANTHONY PAYNE**  
MANAGING DIRECTOR  
anthony@lonres.com



**JAMES GOLFAR**  
DIRECTOR  
james.golfar@lonres.com



**MARCUS DIXON**  
HEAD OF RESEARCH  
marcus.dixon@lonres.com



**ALISON BLEASE**  
DIRECTOR OF PR  
alison.blease@lonres.com



**EMMA HERRIMAN**  
MARKETING DIRECTOR  
emma.herriman@lonres.com



**CHRIS WELCH**  
SALES MANAGER  
chris.welch@lonres.com



**ELLA MCEWEN**  
ACCOUNT MANAGER  
ella.mcewen@lonres.com