RESIDENTIAL RESEARCH

Knight Frank

LONDON RESIDENTIAL REVIEW

Q3 2019

THE EBB AND FLOW OF BREXIT | BUYER FIREPOWER SURGES | THE RISE OF FILM INDUSTRY SHORT LETS

KEY FINDINGS

£51.5 billion
The total potential spend by buyers registered in prime central and prime outer London

33%
The increase in the number of exchanges above £10 million in London in the year to June 2019

10.4%
The year-on-year increase in the number of transactions in PCL and POL in May, as Brexit-related uncertainty temporarily receded

-21.7%
The annual % change in the number of new listings in PCL and POL in the year to June

PRIME LONDON SALES MARKET INSIGHT

The political twists and turns of Brexit are causing activity to ebb and flow in the prime London property market, as Tom Bill explains

Political uncertainty continues to have a tangible impact on activity in the prime London sales market.

While the overall number of exchanges was marginally higher in the first six months of 2019 compared to the same period last year, it was not a uniform trend over the period, as figure 1 shows.

Transactions declined year-on-year in January and February, underlining the mood of uncertainty as the original Brexit deadline of 31 March approached without a political consensus on the way forward. The first failed meaningful vote on Brexit took place on 15 January.

Between March and May, the number of exchanges increased compared to last year, reflecting how a greater degree of confidence returned as the March deadline was delayed and the prospect of a disorderly "cliff edge" Brexit receded. Indeed the rise in May was 10.4%.

However, transaction levels fell marginally again in June, demonstrating how political uncertainty returned following the resignation of Theresa May at the end of May and as the Tory leadership election got underway.

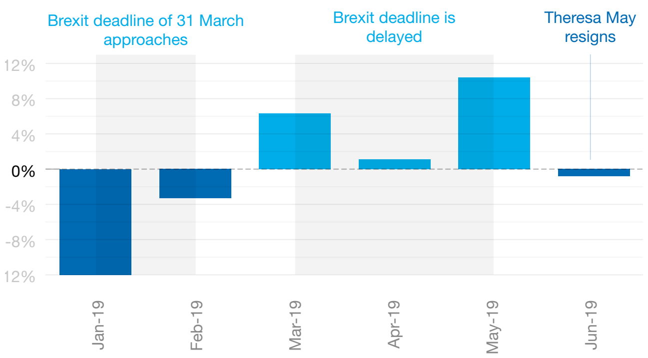
The new prime minister has pledged to boost the UK economy, which should drive activity in property markets, all else being equal. Anticipating any short-term impact on pricing from a stamp duty cut, as proposed by Boris Johnson, is less straightforward given the potentially distortive effect on supply and demand. However, such a move would reduce trading frictions and should therefore raise transactions and tax revenues in the long term.

Meanwhile, pent-up demand continues to build. The total available budget of prospective Knight Frank buyers in London rose to £51.5 billion in Q2 2019, as stamp duty-related price adjustments drove demand.

Despite strong demand supply remains constrained The supply of new properties remains more subdued as vendors hesitate due to the political uncertainty. New listings in PCL and POL were 21.7% lower in the year to Q2 2019 than the previous 12 months.

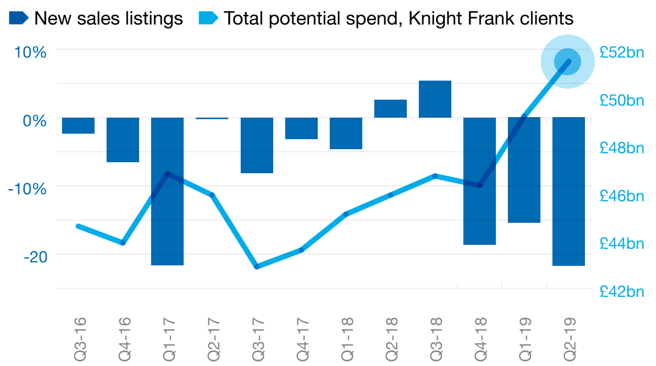
Higher-value markets continue to outperform for reasons that include the fact price growth was more modest than the wider market between 2009 and 2015. The number of exchanges above £10m increased by 33% in the year to June 2019, compared to an equivalent 3% decline between £1m and £2m.

FIGURE 1
The ebb and flow of Brexit
Exchanges in PCL and POL, year-on-year % change



Source: Knight Frank Research

FIGURE 2
Firepower builds as supply falls
All market, new listings = annualised % change

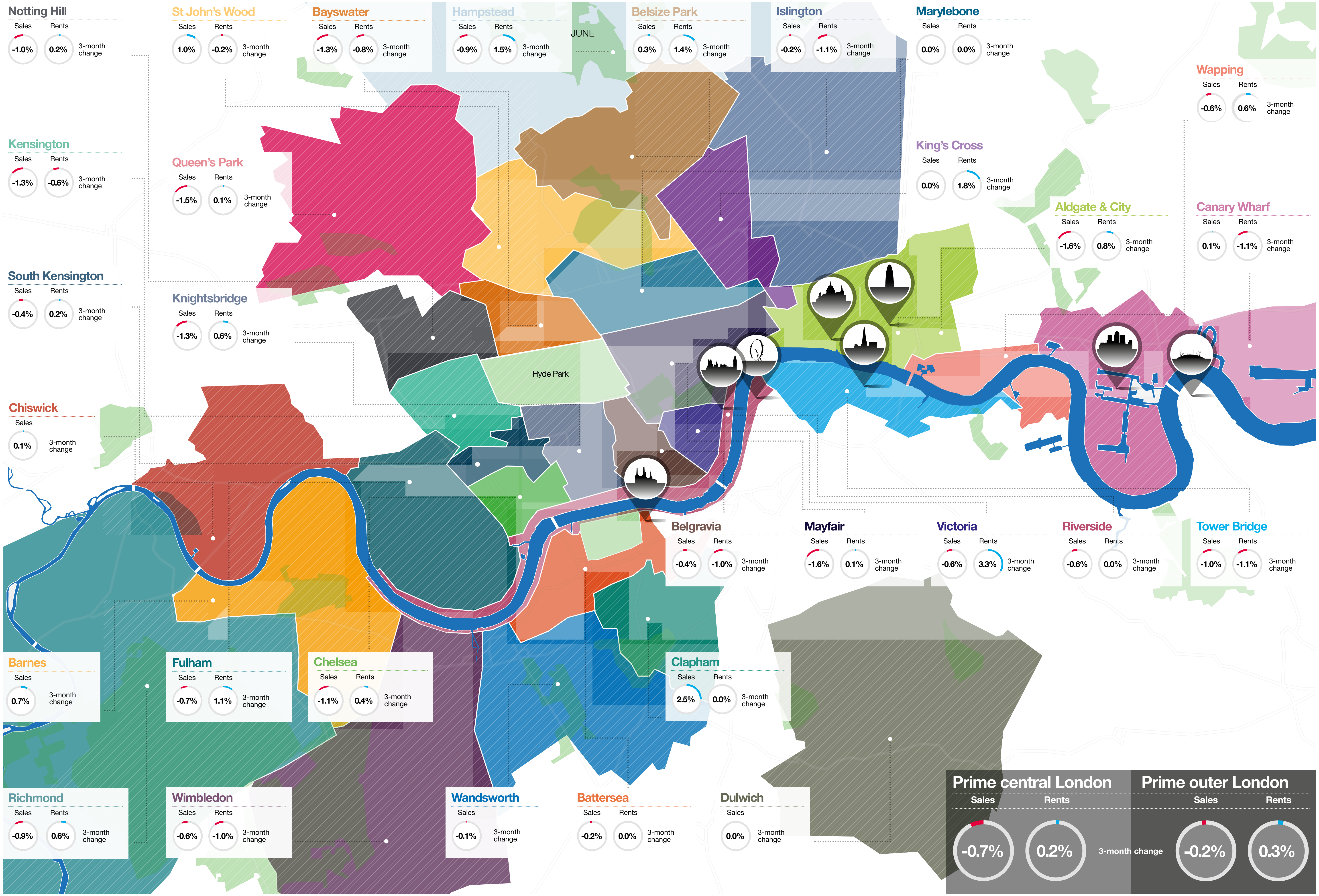


Source: Knight Frank Research / Rightmove

TOM BILL
Head of London Residential Research

"Anticipating any short-term impact on pricing from a stamp duty cut... is less straightforward given the potentially distortive effect on supply and demand. However such a move is likely to increase transactions in the longer term."

PRIME LONDON PRICE AND RENTAL GROWTH, JUNE **2019**



KEY FINDINGS

47%
Rise in the number of new prospective tenants in Q2 2019 versus Q2 2018

25%
Increase in the number of tenancies agreed in Q2 2019 compared to Q2 2018

16%
Rise in the number of lettings listings above £2,000 per week in the year to June in PCL

151
Total number of super-prime tenancies agreed in the 12 months to June

PRIME LONDON LETTINGS MARKET INSIGHT

An increase in supply and demand looks likely to keep rental values in check during 2019, as Tom Bill explains

Demand in the prime London lettings market strengthened notably over the first six months of the year.

The number of new prospective tenants registering in the second quarter of 2019 rose by 47% compared to the same period last year. It was the highest such year-on-year increase in more than ten years. Over the first half of the year, the increase was 34%, as figure 3 shows.

The reasons for the increase include the unpredictable political backdrop, which means some buyers have opted to rent in the short-term.

The other factor that explains the rise is the tenant fee ban, which was introduced in June and reduces upfront costs for tenants.

Viewings in the first six months of the year rose by 10% compared to last year, while the number of tenancies agreed was up by a quarter.

Despite this growing demand, rental values in prime central London have been flat over the last year. Average rental values declined 0.5% in the year to June, which followed 12 months of annual rises that peaked at 1.4% in February. There was a similarly stable picture in prime outer London, where annual rental value growth was broadly flat in the first half of 2019.

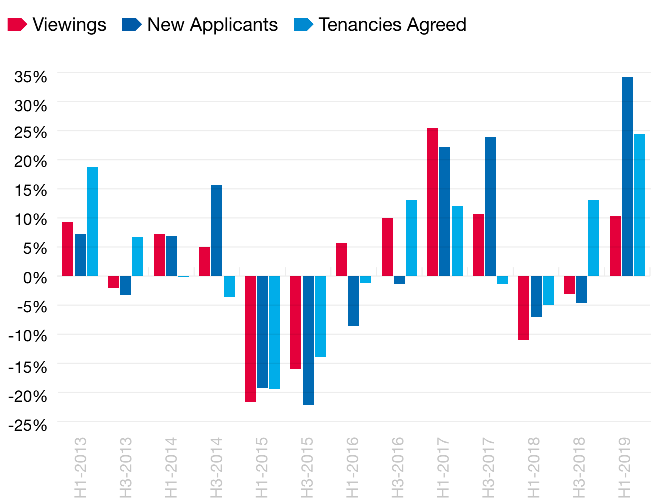
The reason rental value growth has been kept in check is rising supply of homes to let, particularly in higher value price brackets.

While the overall number of new listings in PCL and POL was down 5% and 8% respectively in the year to June, in prime central London the number of newly-listed properties with an asking rent above £1,000 per week rose 11%. The increase was 16% above £2,000 per week.

While some landlords initially listed their property for sale in response to tax changes, a number have returned to the lettings market after failing to achieve the asking price, a trend that is more marked in higher price brackets because vendors are typically more discretionary.

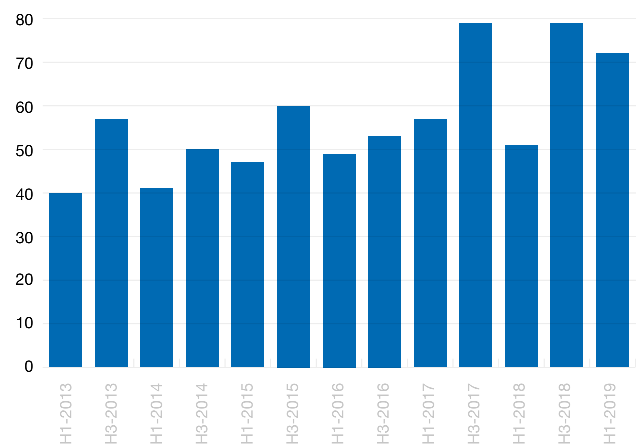
This trend has also been observed in the super-prime (£5,000-plus/week) price bracket. Along with political uncertainty, this increase in availability has driven the number of tenancies to 151 over in the year to June 2019, the highest figure for a 12-month period in more than six years.

FIGURE 3
Demand surges across prime London lettings markets
Year-on-year % change, all market, Knight Frank offices



Source: Knight Frank Research

FIGURE 4
Record activity in the super-prime lettings market
Number of tenancies agreed, all market, Knight Frank offices



Source: Knight Frank Research / LonRes

PRIME LONDON IN NUMBERS

82%

The rise in the number of film-related enquiries for short lets received by Knight Frank in the year to May 2019 compared to the previous 12-month period.

The reasons for the rise include British film industry tax breaks and the weaker pound.

In addition to rising number of enquiries, the average weekly budget for searches increased by 15% to £2,745.

“The uptick in demand has been matched by the fact more and more owners are open to the idea of renting out their property on a short term basis rather than leave it unoccupied,” said Stevie Walmesley, head of luxury short lets at Knight Frank.

Demand is strong across a number of different price brackets for production staff, crew and the actors, says Stevie, which means weekly rents can range from £750 to upwards of £30,000.

The Notting Hill / Holland Park neighbourhood of London remained the most in-demand area for film industry requests, accounting for 18% of all film and television-related enquiries. That was followed by Hampstead (9%), Belsize Park (9%) and Richmond (9%), while Kensington (8%) completed the top five.

1,082%

An analysis of repeat sales data shows that parts of Peckham (SE15) in south-east London have experienced house price growth of 1,082% since Land Registry records began in 1995, the highest growth in England and Wales.

The district in second place was neighbouring East Dulwich (SE22), where some areas grew by 1,069%, followed by Camberwell (SE5), where growth reached 1,038%. The top five was completed by E5 and E9 in the borough of Hackney, where growth in some areas was 1,000%.

The extent of the growth underlines how powerfully the London economy has grown over the last several decades. It also shows how affordability constraints have pushed demand into south-east London in recent years, driving the rejuvenation of areas like Peckham and beyond as house price growth ripples outwards from the centre.

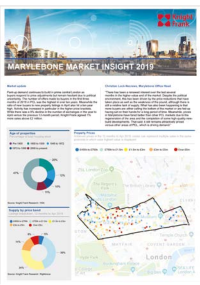
Christopher Burton, head of Knight Frank’s Dulwich office said: “Peckham’s improved connectivity, combined with its great Victorian and Edwardian housing stock, has driven its reputation as an artistic and gastronomic destination.”

The Wealth Report

Prime London Sales Index June 2019

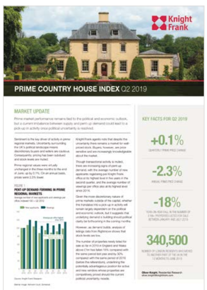
Prime London Lettings Index June 2019

Super-Prime market insight Summer 2019



Marylebone market insight 2019

Residential Investment report 2019



Prime country house index Q2 2019

Active Capital The report 2019

RESIDENTIAL RESEARCH

Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

PLEASE GET IN TOUCH

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.

Tim Hyatt
Head of London Residential
+44 20 7861 5044
tim.hyatt@knightfrank.com

Gary Hall
Residential Lettings
+44 20 7480 4474
gary.hall@knightfrank.com

Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank