

RESIDENTIAL RESEARCH



LONDON'S 'GOLDEN POSTCODES'

SUPER-PRIME DEVELOPMENT FOCUS **2015**



LONDON MARKET UPDATE

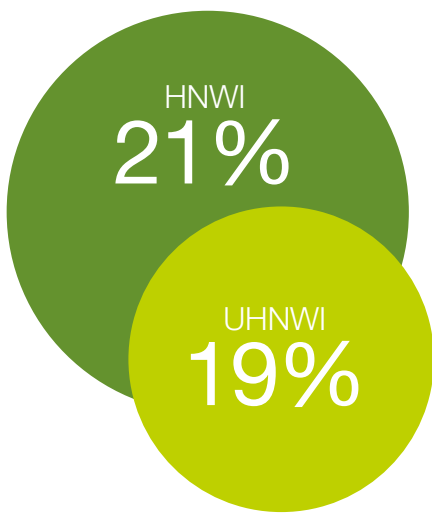
PIPELINE SUPPLY

SUPER-PRIME STEPS
UP A GEAR

INTRODUCTION

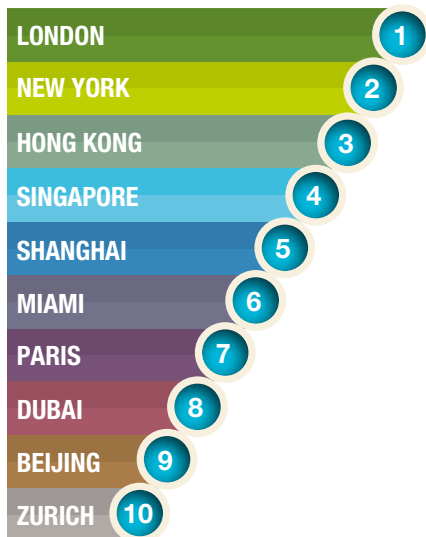
Demand for super-prime property in central London is underpinned by the city’s dominance as a financial and entrepreneurial hub and its reputation as one of the world’s best places to live.

FIGURE 1
Forecast growth in high net worth (HNW) and ultra high net worth (UHNW) populations in London 2014-2024



Source: Knight Frank Wealth Report 2015

FIGURE 2
Most important cities to the ultra-wealthy 2015



Source: Knight Frank Wealth Report 2015

Focusing on the very top end of London’s property market, this report examines ‘super-prime’ properties which are worth £10m and more.

Although only accounting for a tiny proportion of the total market, the performance of this sub sector is reflective of London’s enduring global appeal and plays a significant role in influencing the broader market.

As shown in Knight Frank’s Wealth Report earlier this year, London heads the rankings for the most important global city to ultra wealthy people, defined as those who have \$30m or more to invest (figure 2).

Perhaps unsurprisingly then, London is also home to the highest number of ultra-wealthy residents in the world. This is still expected to be the case in 2024, according to data from Wealth Insight prepared exclusively for Knight Frank (figure 3).

Up until ten years ago, the majority of super-prime properties would have been period townhouses or lateral apartments within converted period buildings in Mayfair, Belgravia, Knightsbridge, Chelsea and Kensington. However the supply of newly created ‘super-prime’ developments in recent years has caused a shift in the dynamics of the market.

The ability of developers to offer the highest levels of amenity coupled with iconic design and architecture in schemes

across central London has meant that new-build developments outside the traditional ‘golden postcodes’ are rightly classed as super-prime, creating some new hubs of activity.

The ‘golden postcodes’ have now stepped up a gear in terms of super-prime supply and activity, cementing the reputations of these areas as the most desirable locations in which to live in London.

The quantum change started with 199 Knightsbridge and was quickly followed by One Hyde Park, which showed there was demand for a critical mass of super-prime units of the highest specification with additional amenities and facilities, such as concierge services and ample underground parking, in the most desirable locations.

As the development map on page 4 shows, there are a range of additional schemes in the pipeline in the ‘golden postcodes’, offering a level of choice hardly seen before and underlining the increasing maturity of the super-prime market in this area of London. Compared to the overall scale of development in central London however, the total number of units being brought forward remains very modest.

It is the ‘golden postcodes’ which dominate the super-prime market, as highlighted in the density map which shows where sales of homes, worth more

FIGURE 3
Forecast top five cities by number of ultra-wealthy residents, 2024



Source: Knight Frank Wealth Report 2015

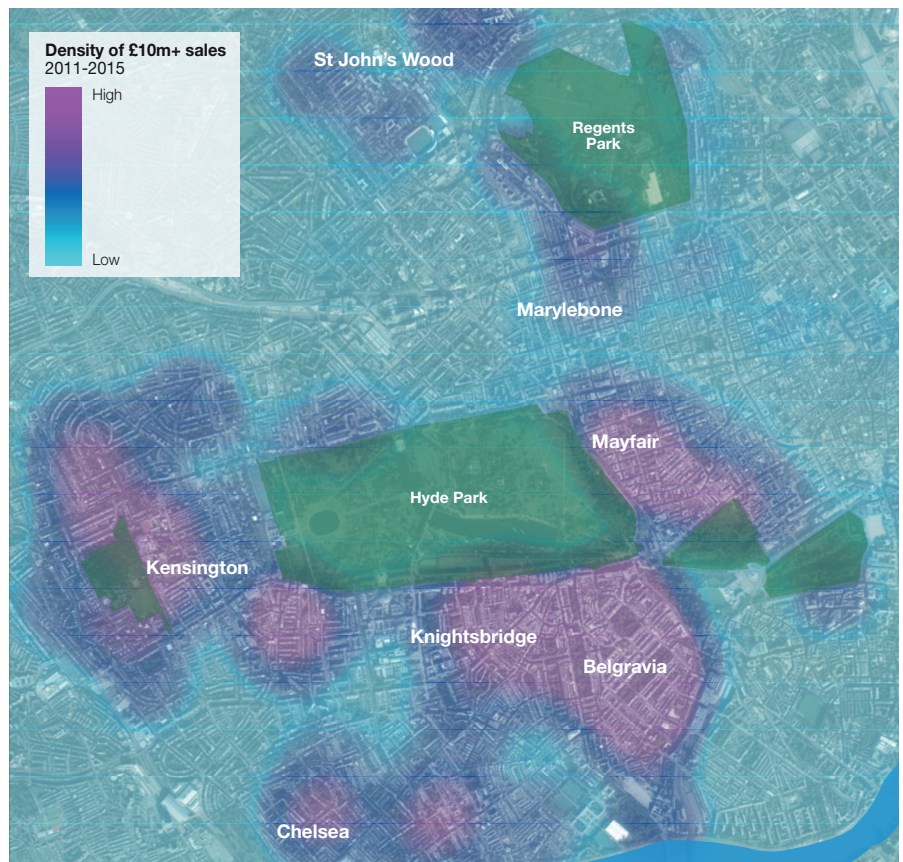
than £10m, have taken place since 2011. As expected, there is a concentration of transactions around Belgravia, Mayfair, and Knightsbridge as well as Kensington and Chelsea.

It is, however, interesting to note that buyers who start looking in one area may well choose to buy in another, persuaded by a development which better suits their needs. Of super-prime buyers who initially registered their interest in Knightsbridge, but eventually bought elsewhere, there is a fairly even split between those who chose Kensington, Mayfair, Chelsea and Belgravia.

The total number of super-prime sales has risen steadily over the last eight years. When adjusted for house price inflation, a £10m home today would have cost around £6.1m in 2007 and around £7.8m in 2010. If we include properties at inflation-adjusted prices since 2007, there has been a 63% real increase in the rate of annual super-prime transactions between 2007 and 2014.

The trend of super-prime transactions rising is mirrored in New York, London's closest global competitor.

FIGURE 4 Density of £10m+ sales, 2011-2015



LONDON MARKET UPDATE

The prime and super-prime markets are where the creation of the Conservative majority government in the wake of May's UK General Election have arguably been felt the most, given the proposals for an annual tax on homes worth £2m+ put forward by the opposition political parties.

Activity in the super-prime market was robust for much of 2014, with the number of sales nearly double that in 2012. However there was a dip in activity towards the end of 2014, as uncertainty about the Election really started to reverberate.

Yet, even as the threat of a 'mansion tax' has receded, it is worth noting that the top-end of the housing market in London is to some extent still absorbing the changes in stamp duty introduced in December last year. The new rules have increased the cost of buying properties worth more than £1.1 million in the UK, and this is being reflected in some price

adjustments, which in turn has been reflected in more moderate rates of price growth.

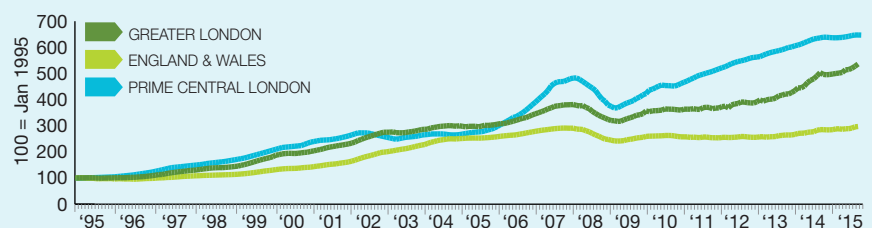
In the Summer Budget, the Chancellor also announced some changes to the rules surrounding IHT for properties held in company structures to bring the market more into line in terms of the tax treatment of domiciled and non-domiciled buyers.

Previous tax changes, such as the Annual Tax on Enveloped Dwellings (ATED) and

past increases in stamp duty levies, have been assimilated in recent years, and it is expected that the market will, in time, adjust to the most recent changes.

While activity has been rising steadily over the last four years, price growth in the super-prime market has been more measured in recent years, although prices in this sector of the market have climbed by 43% since 2009, and more than doubled over the last decade, rising by 126%.

FIGURE 5 Change in property values Long-term price growth



Source: Knight Frank Research / Land Registry

In this report we examine several of the ‘golden postcode’ super-prime hubs in more detail, as well as identifying some areas to watch as up and coming super-prime districts.

Area focus: Belgravia

Belgravia is arguably the original super-prime hub of London due to its housing stock – large townhouses positioned around garden squares. Its layout means that it is still a relative oasis in London, despite being positioned at the heart of the city, just minutes from Knightsbridge and Sloane Square as well as Hyde Park and Green Park.

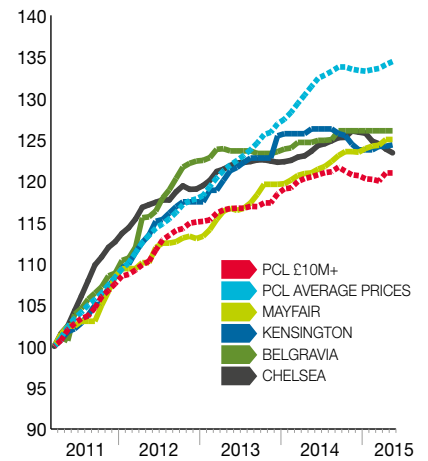
Proximity to London’s parks, is always desirable – it is no coincidence that the traditional heart of prime central London is based around Hyde Park, Green Park and Holland Park. Recent research

carried out by Knight Frank shows that a view onto Garden Squares, which are prominent across Belgravia as well as other super-prime areas, adds value to property. On average, a home with such a view commands a 10% premium over one without.

The retail offering in Belgravia has been augmented in recent years with the transformation of Elizabeth Street and Motcomb Street by the Grosvenor Estate. Both are now home to artisan shops and high-end delicatessens and restaurants. Belgravia has been identified by Forbes magazine as one of the best shopping areas in London.

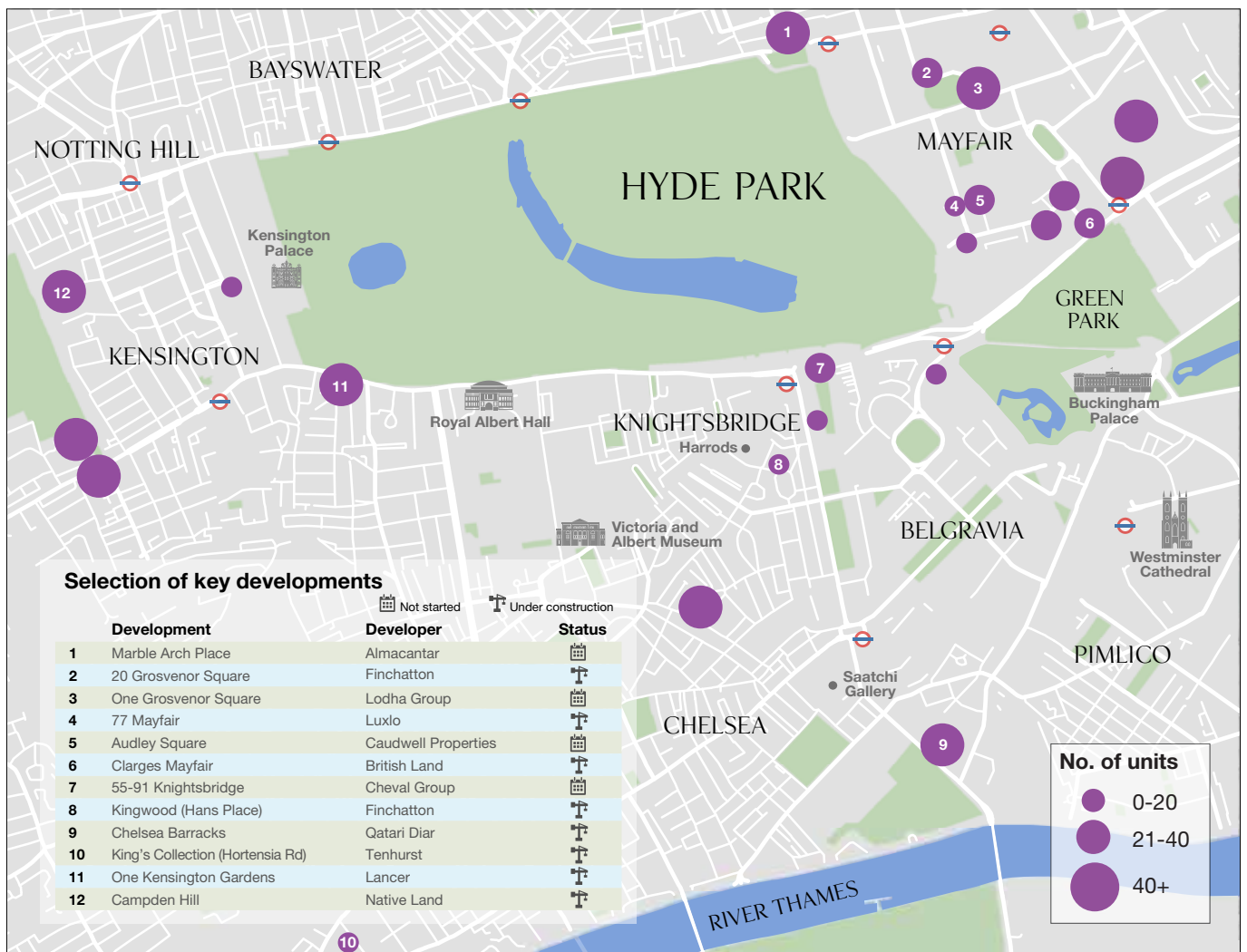
Average prime prices in Belgravia have climbed by 56% since the post-crisis low in 2009, and this area is one of the busiest for super-prime activity.

FIGURE 6
How price growth compares
Prime central London prices 2011 - 2015
Indexed 100 = 2011



Source: Knight Frank Research

FIGURE 7
Schemes in planning or under construction in the ‘golden postcodes’ with a super-prime element



Source: Knight Frank Research

Area focus: Mayfair

Mayfair's reputation as a luxury home destination continues to grow. While it was arguably the best address in London through the late 18th and 19th centuries, it became known as a primarily business district throughout the early 20th century.

However large-scale planning by the Grosvenor Estate over the past few decades, including the re-generation of Mount Street, which now boasts high-end retail outlets and restaurants, has helped boost Mayfair back to the top in terms of prime central London locations. The fact that the area is home to a concentration of high-end institutions, from centuries' old members clubs to the hippest new clubs (as shown in figure 8) means it is a desirable area to live for all age groups.

In recent years the 'golden postcode' ribbon around Mayfair has extended to the south to encompass St James's, with several high-end residential schemes bringing values in this area closer to those in Mayfair.

The borough of Westminster is getting set to reverse its favourable planning policy towards residential development, instead moving to protect commercial buildings in the core. This will impact upon future supply.

Average prime property prices in Mayfair have risen by 55% since the trough of the market after the financial crisis, and prime rents rose 2.3% in the six months to July 2015, one of the strongest rates of growth seen across the prime London market.

The annual rate of growth in capital values in Mayfair has been outperforming those in Belgravia and Knightsbridge since March this year, a trend we expect to continue.

Area focus: Kensington

Super-prime activity in Kensington has been rising in the last few years, as buyers follow the supply of new luxury housing, helping create a new 'super-prime' hotspot. Kensington's appeal across the

London market has always been strong, with prime property prices rising 72% since 2009. Key among the attractions the area has are its educational facilities, with many top primary and secondary schools based in Kensington or close by.

The attraction that a London education has on the world stage is a key factor. Data from Knight Frank's Wealth Report shows that some 50% of Russian UHNWIs and 42% of Chinese UHNWIs would like to send their children overseas for their secondary education. In contrast, just 13% of UHNWIs based in the UK have the same view.

FIGURE 8 **A map of luxury London**
Density of exclusive institutions and venues

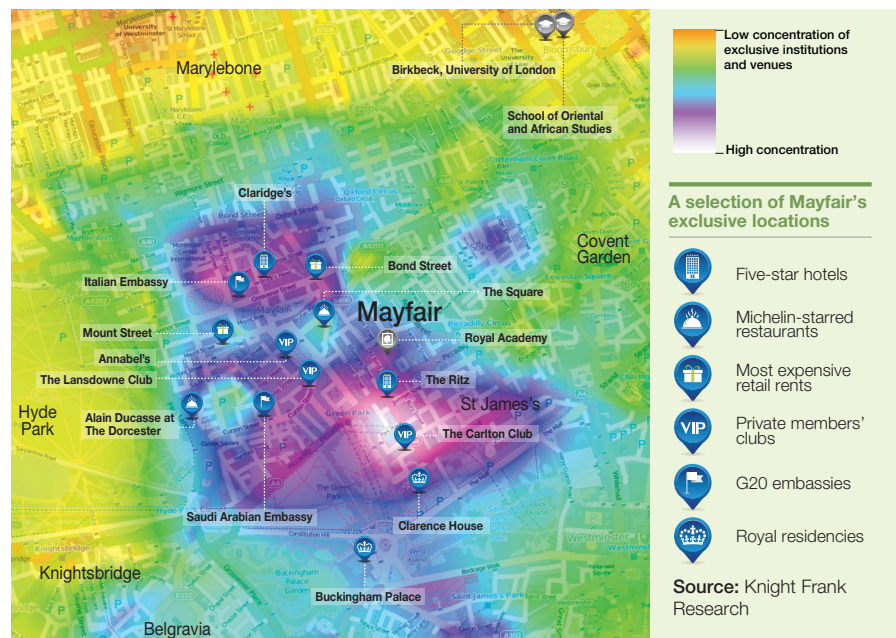
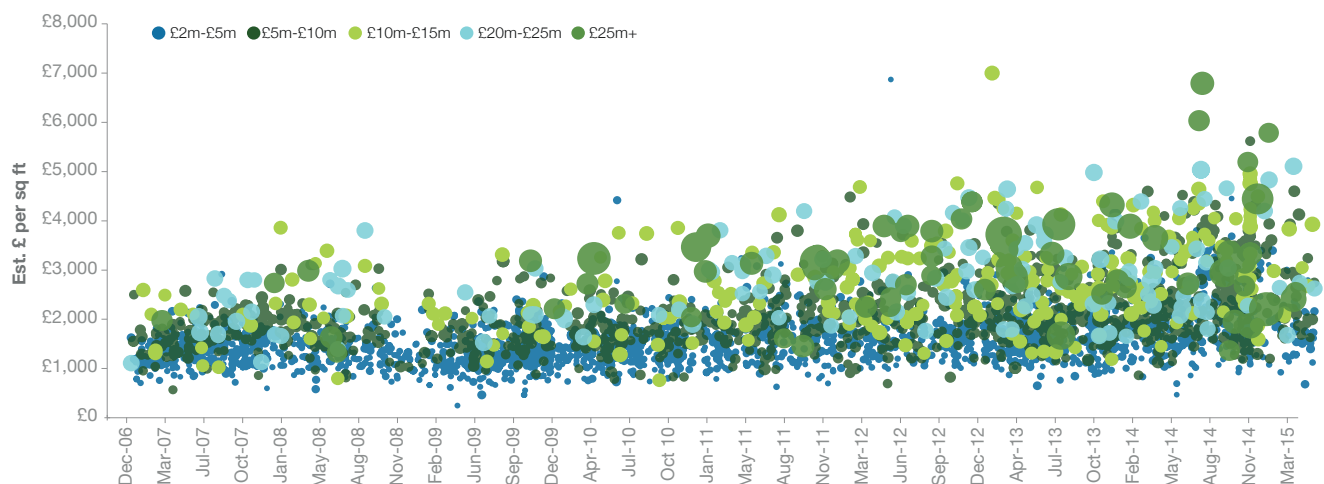


FIGURE 9 **Prime transactions in London** By capital values and estimated price per square foot



Source: Knight Frank Research

Whereas other 'super-prime' hotspots are already benefitting from high-end retail amenities, there is further room for development in Kensington, especially at the western end of the High Street. This will likely accompany the emergence of more prime stock around this area, and could underpin future price performance.

Prime prices in Kensington have risen by 72% since 2009, one of the best performing markets across prime central London.

Area focus: Chelsea

Sitting to the west of Belgravia, and to the south of Knightsbridge and Kensington, Chelsea makes up the final area in the golden postcodes. Like the others, it boasts large period houses which, along with its location, mean that

average prices here have been higher than most other areas in London for many decades.

Much of Chelsea is owned and managed by the Cadogan Estate, which not only maintains the garden squares, but has also, in recent years, revamped the retail offering on Sloane Street, which now rivals Knightsbridge as one of the better destinations for luxury shopping.

Chelsea also boasts accessibility to many green spaces, including the gardens at the Royal Hospital Chelsea and Chelsea Physic Gardens.

Prime prices in Chelsea have risen by 63% since the trough of the market in 2009, and are now 20% above the previous market peak reached in early 2008.

AREAS TO WATCH Regent's Park

While not a traditional 'golden postcode', there is an argument that Regent's Park should be added to the roster.

Comprised of just a handful of streets, Regent's Park has always been a sought-after super-prime address. In fact, the white stucco terraced homes and villas which surround the 410-acre royal park are among some of the most expensive residential properties in London.

Part of the reason for the area's exclusivity stems from the fact that the Crown Estate own and manages a significant amount of property there. Planning is strictly controlled and rules are in place to help preserve the uniformity of the Regent's Park houses.

However, there are plans for future development, especially to the area to the south of the park, which is likely to increase the level of super-prime stock available and reinforce the area's position as a luxury home destination.

The shops, bars and restaurants of Marylebone High Street and Regent's Street are just a short walk away ensuring that the retail offering in the surrounding area is also high.

Marylebone

Over the past decade Marylebone has evolved into a recognised prime residential address. The transformation has been led by the Howard de Walden and the Portman Estates, the two major landowners in the area, who have focussed on improving the retail and restaurant offer, the quality of office accommodation, and making improvements to the wider public realm.

As a result, demand for property in Marylebone has risen – something which has underpinned strong price growth in the area. Over the 24 months to August 2015, price growth in Marylebone totalled 14%, compared with 10% in prime central London as a whole, and 8% and 4% in Mayfair and Knightsbridge, respectively.

Additionally, the premium nature of the development pipeline has played a key part in driving price growth. Knight Frank analysis of the sales market in Marylebone reveals that in the six years to 2015, the average price of the top 10% of sales by value, increased from £2.1m to £6.1m.

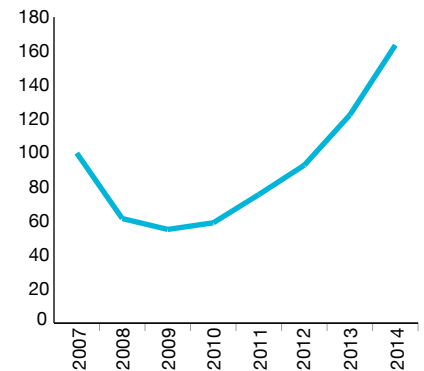
The arrival of Crossrail in 2018, with stations at Paddington and Bond Street will undoubtedly further boost demand.

The level of super prime development happening around Marylebone suggests this area is one to watch. In the future it, along with Regent's Park, could become a well recognised 'golden postcode' for super-prime.

FIGURE 10

Sales volumes in the super-prime London market (£10m+)

Indexed, Jan 2007 = 100



Source: Knight Frank Research
NB: Figures have been adjusted for house price inflation



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