



## CENTRAL LONDON: LONDON'S NEW RESIDENTIAL LANDSCAPE

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### OVERVIEW

In contrast to national trends, transactions in London have picked up somewhat since the end-of-year lull. Overseas buyers continue to dominate the market, largely supported by on-going favourable exchange rates. In particular Asian off-plan sales are making up an increasing share of all sales. Despite the recent market momentum boosting development, supply remains constrained, particularly in the prime areas of London. The resulting underlying demand and supply imbalance has continued to push up prices widening the differential between Prime Central London and the rest of the country. Average prices in Kensington and Chelsea are now 9% above the peak levels. In contrast, the rest of Greater London lags behind at 2% below their peak levels.

### PRIME CENTRAL LONDON: STILL A THIN MARKET

At a national level demand remains depressed and this has a direct impact on sales; housing transactions are around two-thirds lower than at the peak and around half the long-term average level. This reflects the underlying economic weakness combined with on-going mortgage constraints. In particular, lenders are currently committed to repaying the Special Liquidity Scheme. The resulting repayment burden on lenders will continue to act as a drag on gross and net lending, and therefore constrain domestic demand, until at least the end of the year.

However, Prime Central London, with its bias towards wealthier and overseas buyers, has been somewhat insulated against this. As a result the market has outperformed wider trends. For example, sales rates have recovered to around 75% of the long-term average (albeit half the peak level).

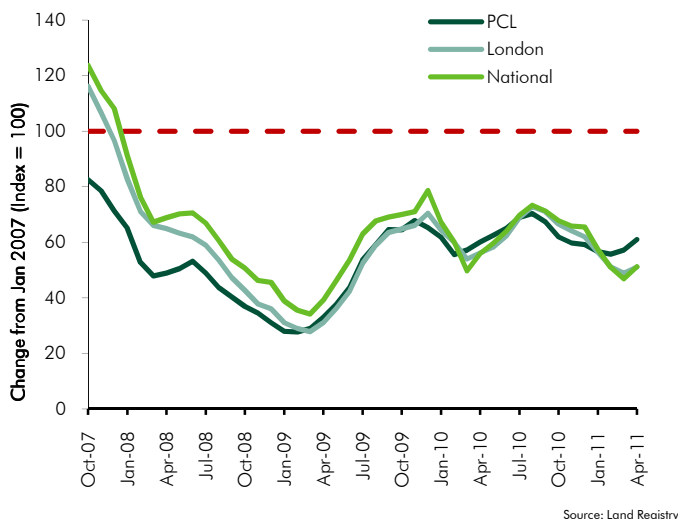
### BUT PRICES PUSHING PAST PREVIOUS PEAK

Despite easing slightly, the lack of supply remains an issue; would-be sellers have been reluctant to market properties at prices they consider too low and development is muted (albeit picking up marginally). In PCL there are just 867 private units currently under construction and a further 3,864 private units in the planning pipeline.

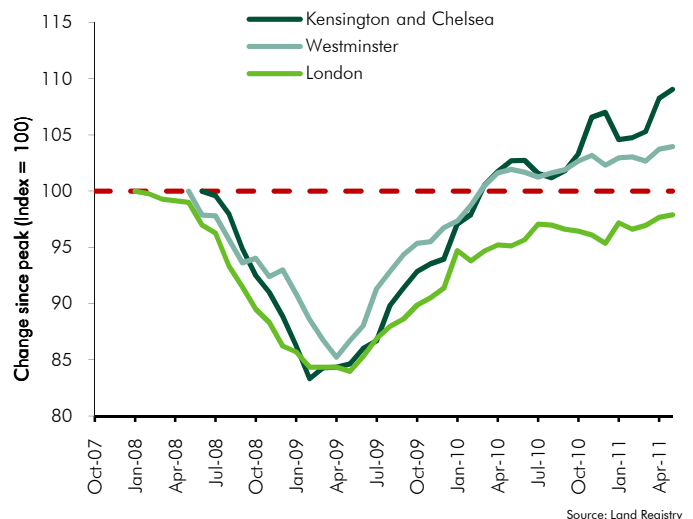
With these factors combined, the acute demand and supply imbalance is particularly marked in PCL and is steadily pushing up prices. Average flat prices in Kensington and Chelsea have risen by 6.2% over the past year to currently stand at £764,000, which is 9% above the peak levels. In contrast, the rest of Greater London lags behind at 2% below their peak levels.

Despite the recent pick-up in prices, the currency play, which can effectively adjust prices by 20%, means the market remains very attractive to overseas buyers, who are dominating the market.

### Transaction Levels since their Peak



### Flat Prices since their Peak



## THE HEAT OF THE PRIME IS SPREADING...

The highest values in London are still within the traditional SW-Sweet-Spots of Chelsea, Knightsbridge and parts of Kensington, but other areas are catching up.

The map below indicates how average flat prices have moved since the peak, in Q3 2007. It paints a powerful picture, particularly highlighting the considerable strength of the North London market. Average flat prices in parts of Camden (NW1 4) and Hampstead (N6 4) have grown by over 200%, while most of the post code sectors around St John's Wood show over 50% growth. Trendy parts of the North East are also enjoying consistent growth; for example, the area close to Angel station (EC1V 7), has risen by 43%.

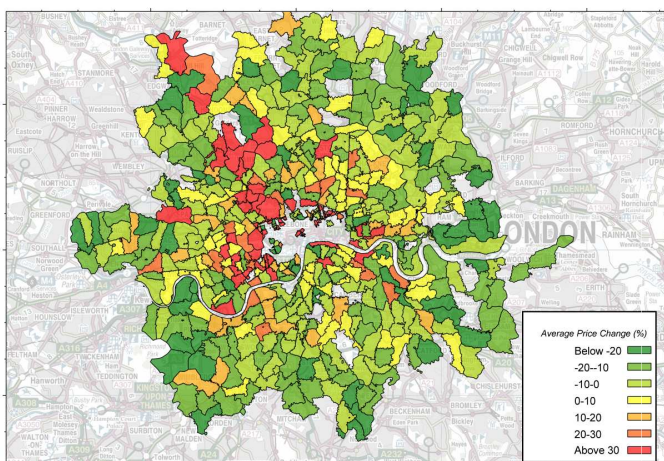
In addition, the traditional prime pockets are spilling west, as might have been expected. Mature markets that have traditionally attracted the cash-rich Brits, as well as some overseas clientele, are performing well. For example, flats have experienced 48% uplift in Notting Hill (EC1M 5), 33% in Parsons Green (SW6 3) and 44% in Lancaster Gate (W2 2).

Confidence has also been increasing in more traditionally off-piste locations in South London. For example, Strata in Elephant and Castle denotes a clear red spot in the map below (SE1 6), highlighting a 37% growth in average flat values since the 2007 peak. Further afield, regeneration projects in Lewisham and Greenwich are also enjoying a renewed sense of optimism, with increases of 24% in some parts.

### ...BUT NOT EVERYWHERE

In contrast to these 'hot' areas, the more periphery markets (shown here in green) have struggled through the recession. These traditionally suburban areas depend much more on UK buyers, who are still battling borrowing issues. It is clear the lack of overseas buyers propping up is having a marked impact on prices; highlighting the extremely two-tiered nature of the London market.

### Average Flat Price Change, Q3 2007: Q1 2011



Note: The empty sections denote insufficient data and indeed, where there is data, it is typically a small set and will be heavily influenced by any new schemes that have come onto the market recently.

Source: Land Registry

## NEO Bankside

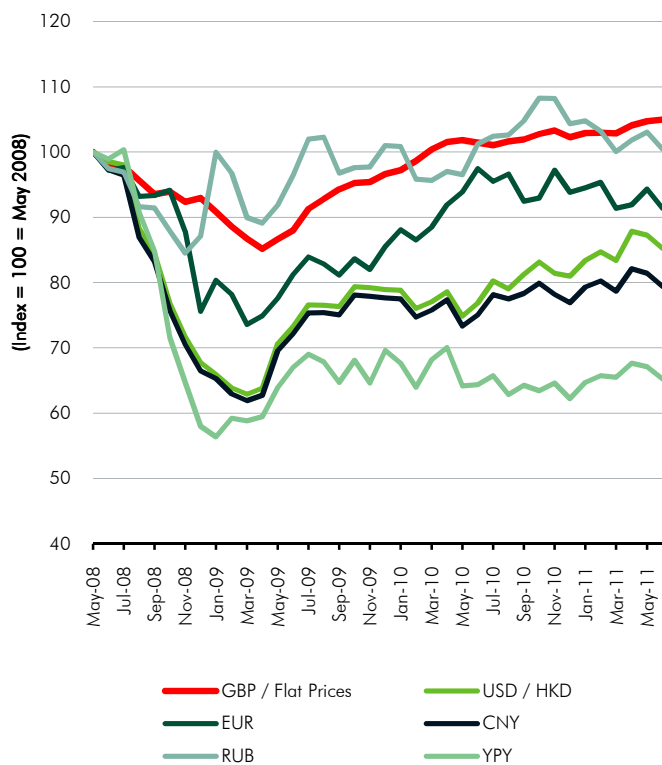


### WHAT ISN'T ON AT THE SOUTHBANK?!

The Southbank is, without doubt, one of London's success stories of the past decade. It is now a vibrant community where grass-roots culture continues to thrive alongside the overtly commercial, giving rise to the best theatre, art, festivals, food, cinema attractions that the capital has to offer. The sense of place has encouraged residential development, in an area that previously harboured a stigma of having too much social housing, and values now reflect the new improved stock and wider sense of confidence.

NEO Bankside has shown impeccable timing, arriving on the market just over two years ago, and subsequently achieving very impressive sales rates. Unsurprising given its underlying attributes of height, views, riverside location, good internal spec, attractive overall design and so forth. In a market where safety has the premium, brand names are crucial; Richard Rogers and Native Land deliver on this. Since the launch, NEO Bankside has been achieving an average of £1,400 psf; going up to £2,000psf for the best units.

The scheme has appealed to a broad range of buyers. It has been bought as a main residence by around 50% of all buyers, but others are using as a base in London or for their children who are working or studying in London. In addition, the good rental potential in the area has led to significant investment sales. So far, it has sold to buyers of 21 different nationalities, including a large proportion from East Asia, Russia, the US, the Middle East and continental Europe. However, it also attracts a great deal of domestic buyers; 65% of purchasers have mortgages. Appealing to such a broad buyer base obviously has its immediate advantages, but also gives investors comfort in the long-term, knowing that there will always be an exit strategy.



Source: Bank of England, Land Registry

The appetite for off-site sales in Asia is still extremely strong, and has helped sales rates of new-build schemes pick-up considerably; all the highest selling schemes so far in 2011 had some form of exhibition in Asia. According to Moliar, there are now 1,200 complete, but unsold units in London, compared with 2,000 only six months ago. Moreover, the 1,200 includes the large number of units that have recently come onto the market in the Olympic Village. Sales rates have increased the most for units priced under £600 psf, or over £1,000 psf, compared with the middle portion of the market. This indicates an appetite for growth potential or prime products.

Overseas investors are adopting an increasingly risk-averse strategy, sticking with known developers who have built up a strong reputation at exhibitions already. Similarly, there is also a very clear preference for known hot spots; Canary Wharf, for example, is still extremely popular, given the strong rental growth. Riverside schemes remain highly sought after; St James's Riverlight and Tideway Wharf schemes have sold exceptionally well – in advance of 80 units in Asia, very quickly – as well as the nearby St George's The Tower.

However, good schemes will sell despite more off-piste locations. For example, Avant Garde Tower on Bethnal Green Road launched in April and sold 183 units by the end of June; 121 overseas (Honk Kong, Kuala Lumpur and Singapore) and 62 in the UK.

CONCLUSION

There are a number of reasons why overseas buyers are taking a strong interest in Prime Central London. The currency play in itself is still very powerful; for example, prices are adjusted by around 20% if bought with Hong Kong Dollars rather than Sterling. In addition to these effective discounts, as well as the city's inherent attributes, London offers a considerable level of security compared with most parts of the world right now, both politically and economically. The top end of the market is attracting such a wide range of buyers from all over the world, it is in effect insulating itself as best it can from any one economic cycle. And in the short-term, these investors have been essential to the market, propping up development with their off-plan purchases.

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