REPORT

Savills Research

IN FOCUS:

PRIME CENTRAL LONDON

UK RESIDENTIAL – AUTUMN 2023

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FOREWORD

A VIEW FROM THE TOP

Looking back at the property headlines in 2023 so far, you would be led to believe that wealth and investment had deserted the UK, and the property market had halted. But there is a marked difference between the headlines and reality when it comes to prime central London property today.

Despite the concerns over rising interest rates and increased price sensitivity, wealthy cash buyers are still acquiring top-tier trophy homes. And there's been a surge of interest in the luxury rental market too. Tenants are looking for similar home qualities as buyers, perhaps with a more transient mindset.

Demonstrated by the recent market activity, London retains its status as a leader in attracting worldwide wealth. London's schools, culture, green spaces, history and architecture all continue to contribute to its liveability and lifestyle. Currency has also played its role in attracting international buyers and tenants to the capital.

London's sense of community has resurged throughout its distinctive districts. Cafes are bustling and shopping districts are busy once again; and the diversity of lifestyles on offer available mean that whether you indulge in the historic architecture or enjoy the warmth of an artisan neighbourhood, there really is something to suit many tastes.

Highly sought-after homes, whether established for years or new in the making, only become available once in a generation. When buying in London, you're not only buying bricks and mortar, but rather you are investing into a rare, prestigious part of London's history.

In our fourth edition of 'In Focus: Prime Central London' we blend our in-depth research and insights with our agents' experiences across the prime central London districts and micro-hoods to provide you with an accurate account of the market. If you're thinking of buying, selling, letting, renting or investing, we'd love to talk to you.

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Contents

Prime insight and intelligence

RESEARCH VIEW

SPINNING PLATES

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Whilst trying to predict what will happen to the prime housing markets has been something of a juggling act during the past few years, it seems that now there are more spinning plates than ever.

London's most exclusive, central locations continue to be influenced by a different set of drivers and considerations, though no market is completely immune to the underlying macroeconomic backdrop.

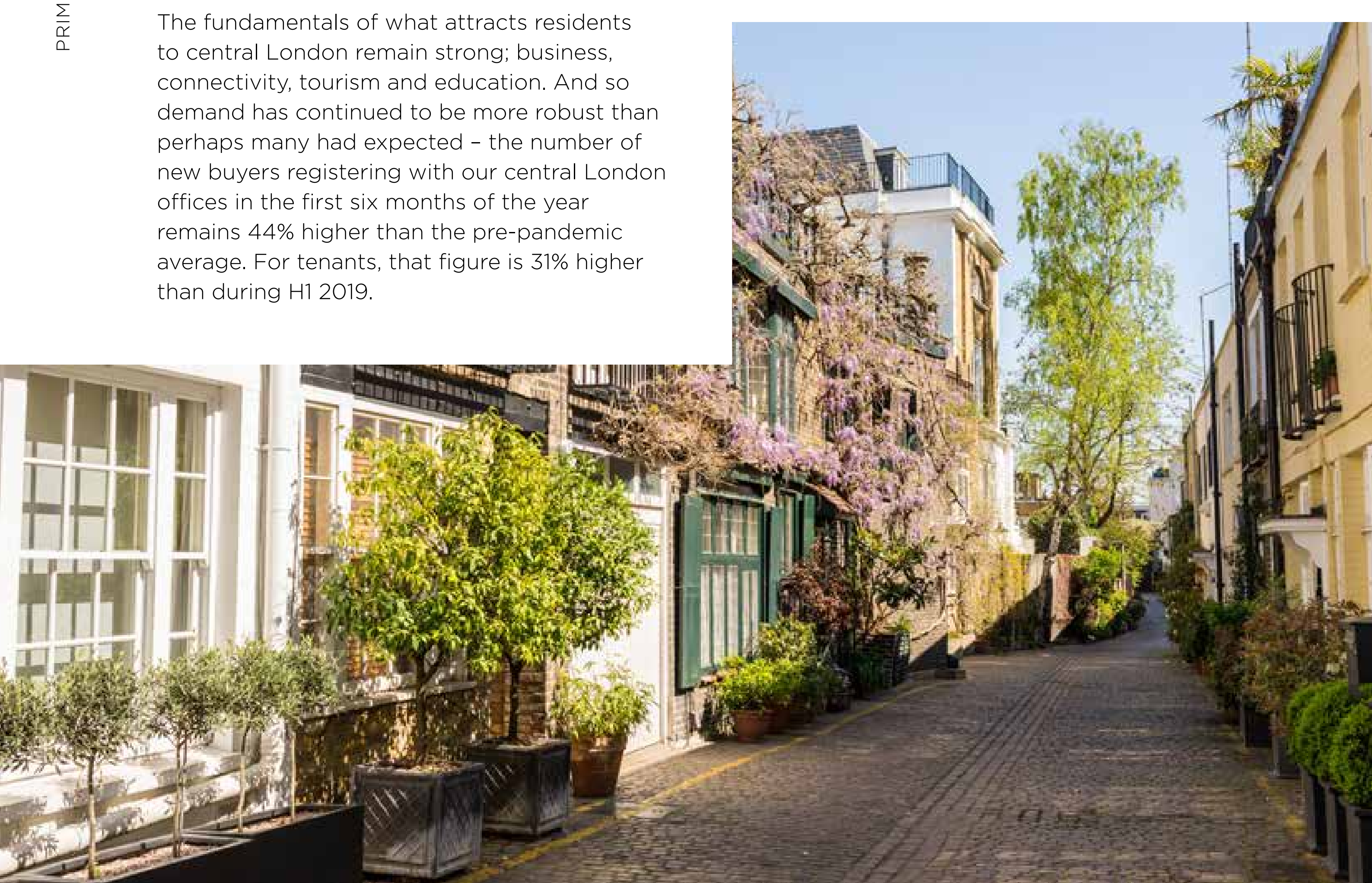
The fundamentals of what attracts residents to central London remain strong; business, connectivity, tourism and education. And so demand has continued to be more robust than perhaps many had expected – the number of new buyers registering with our central London offices in the first six months of the year remains 44% higher than the pre-pandemic average. For tenants, that figure is 31% higher than during H1 2019.

RESILIENCE PREVAILS

Prime central London has held up remarkably well, both in terms of pricing and transactions, with values falling by only -0.9% during the past year. This compares to a fall of -1.0% across outer prime London and -3.5% for the prime markets outside of London.

This performance varies by price point with more expensive homes, those worth more than £5 million and those in excess of £10 million, seeing prices remain broadly flat (-0.2%) in the past year. Property in central London worth less than £2 million, a market in which buyers are more likely to be reliant on debt, fell by a more substantial -1.9%.

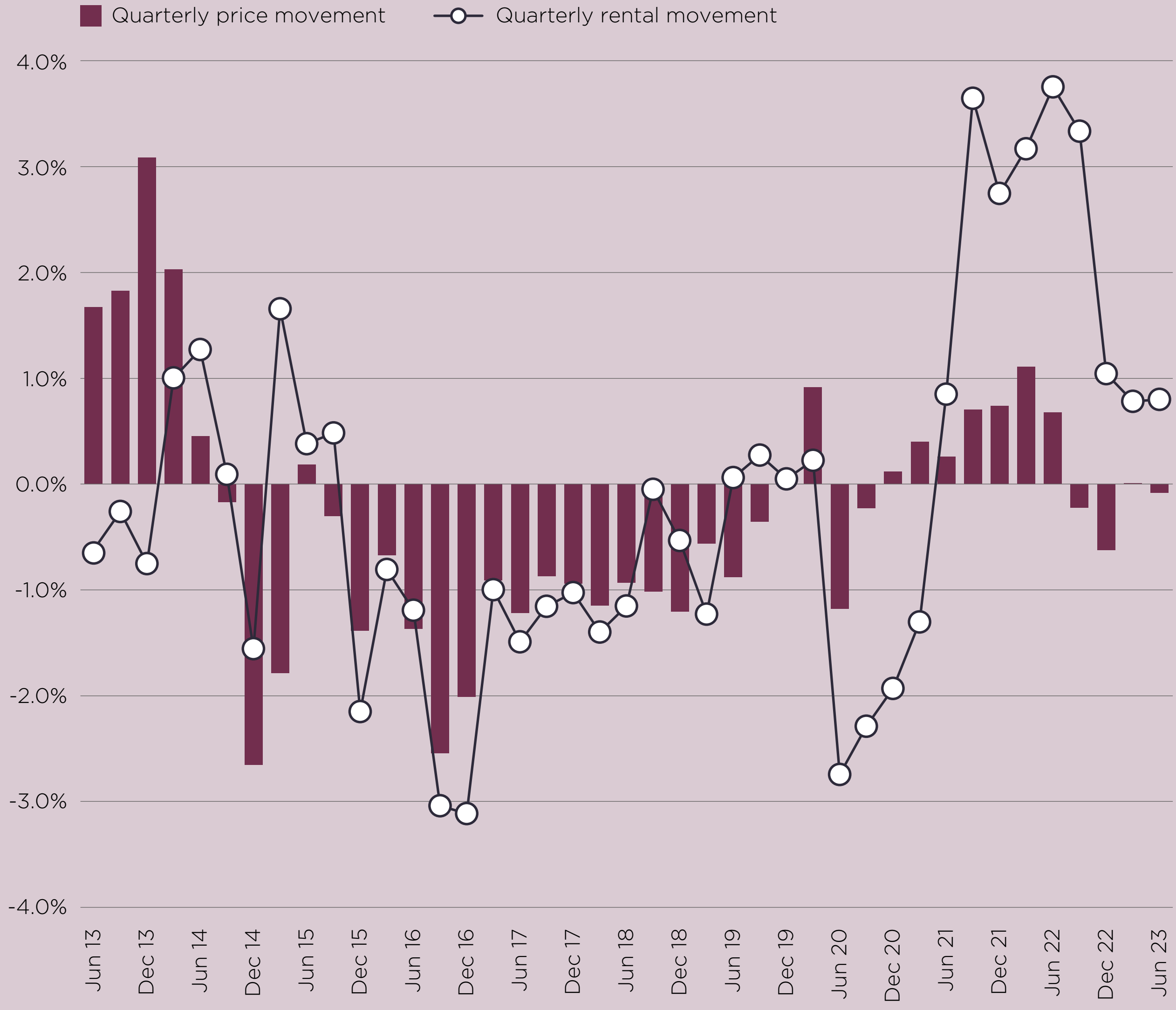
At the same time, prime central London rental values have continued to increase, albeit at a slower rate than in 2022. This leaves them 20.9% higher than they were two years ago when the capital opened up after the pandemic, and an influx of demand soon followed.



Transactions for London homes worth more than £5 million also remain strong with a total of 240 such sales recorded in the first half of the year. While this marks a -21% fall compared to the first six months of 2022, it is on par with the same period in 2021 and 45% above the H1 average for the three years pre-pandemic.

However, there still remains a sense of caution at the top end of the central London market with a lack of urgency among international buyers, despite the value on offer in a historical context. Sterling's appreciation, particularly against the US dollar, macroeconomic pressures on global wealth and requirements for transparency around beneficial ownership have contributed to this.

HOUSE PRICES AND RENTAL VALUES



HOUSE PRICES		
Q2 2023	Annual	Since Mar-20
-0.1%	**-0.9%**	**+1.7%**

RENTAL VALUES		
Q2 2023	Annual	Since Mar-20
+0.8%	**+6.1%**	**+12.2%**

Source: Savills prime London indices, Q2 2023

THE UK ECONOMIC BACKDROP

Inflation continues to fall with the latest indicators showing the Consumer Price Index at 6.8% in July, an improvement on the 7.9% June figure. Expectations are that the Bank of England may not need to raise base rates as aggressively as previously feared, but as demand-led "core" inflation remaining at 6.9% (in line with June) some uncertainty still remains.

For now, as we go to press, the Bank base rate, at 5.25%, remains at its highest level since 2008.

But typically, central London buyers aren't reliant on mortgage debt. Indeed, in the first 5 months of this year, more than 70% of our buyers funded their purchase with cash, up from 58% in 2022. This highlights the discretionary use of debt during the long period of exceptionally low rates and underscores the extent to which this part of the market is insulated against some of the pressures impacting the wider housing market.

A SHIFT TOWARDS CASH BUYERS

Cash buyers across prime central London 1st January 2022 to 30th September 2022

58%

Cash buyers across prime central London 1st January 2023 to 31st May 2023

71%

Source: Savills dealbooks, Jan-22 to May-23

FROM A GLOBAL PERSPECTIVE

More broadly, some reversal of the substantial wealth gains of the past few years are likely to take place as some countries face slower growth and even recession. But the five-year outlook is for global wealth to continue growing. An increase of US$ 173 trillion or 38% between 2022 and 2027, according to the 2023 UBS Global Wealth Report.

The number of ultra-high-net-worth individuals (UHNWIs), a key buyer group for central London homes, is also expected to reach 372,000 by 2027, rising by 129,000, or 53%, in five years.

And despite some concerns surrounding the UK capital's standing in a global context post-Brexit, London remains an international hub for business and has a rapidly growing tech sector in particular. The UK capital attracted by far the most venture capital in Europe last year (US$12.2 billion) and this has helped to cement its position as Europe's premier tech city.

This suggests that central London's potential buyer base is set to continue expanding, with a more diverse mix of where their wealth has been generated.

POLITICAL UNCERTAINTIES

History tells us that a pending general election – which in the case of the UK must be held no later than 24th January 2025 – leads to uncertainty in the housing market. Given the highly discretionary nature of prime central London, we could see both buyers and sellers adopting a 'wait and see approach'.

Regardless of political party; wealthier, higher earning households are most likely to be affected by any changes to taxation.

More specifically, the Labour party has stated that it would abolish non-dom tax status. Data from HMRC suggests there were 55,000 resident non-doms who paid tax in the UK in 2021/22, two-thirds of whom were London based.

BUT WOULD THIS LEAD TO A FLIGHT FROM THE CITY?

A report published by the London School of Economics (LSE) in September 2022 projected that the abolition of non-dom status would raise £3.2 billion in additional tax per year. This accounts for any additional tax planning, loss of revenue from the existing 'remittance basis charge' paid by some non-doms and for any subsequent emigration.

In this regard, the report concludes that very few people would actually leave the UK as a result of the abolition of non-dom tax status. As evidence, the reforms made in 2017 that were intended to "abolish permanent non-dom status" led to just 0.2% of long-term non-doms leaving the UK, despite the changes reducing the share of income they could keep by 8.8%.

The bigger question is whether such a change might reduce the appeal of the UK, and London in particular, as a place for the global wealthy to settle and do business.

SUPPLY SHORTAGES

At the same time, supply of good quality stock is likely to remain constrained, particularly given the planning policy changes that have been implemented by Westminster City Council limiting the size of any new home to 200 square metres. Kensington and Chelsea is expected to introduce restrictions although details have yet to be published. This means that supply is finite – at current rates of sale, we estimate that there is just five years' supply of these larger, new build homes.

There are currently 38 schemes set to market units worth more than £5 million in the next five years, with most already complete or under construction and only a handful with planning permission. So what is currently for sale at this price point is likely to be all that there will be for the foreseeable, particularly as developers struggle with the pressures of high land and build costs.

CONCLUSION

Despite central London's resilience, price sensitivity and buyer caution is likely to continue into 2024, particularly as we approach the next general election. That is likely to trigger questions around potential policy changes, particularly on non-dom tax arrangements.

There are clear headwinds, but we continue to expect prime central London to outperform all other UK residential markets, not least because of its standing in an international context and that global wealth generation is expected to continue growing.

For the rental markets, while there has been some improvement in the levels of available stock over recent months, the imbalance between supply and demand remains significant and will take time to unwind, especially given impending regulatory changes. So rental growth is likely to continue but at a slower rate, particularly for the more discretionary higher end.

VIEW FROM THE PRIVATE OFFICE

WHAT TOPS SUPER PRIME WISH LISTS?

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There's been plenty of activity in the rental market in 2023 so far, with a steady stream of supply matched by tenants looking to put down roots in central London. So what are the hot spot neighbourhoods for super-prime rentals? The cosmopolitan feel coupled with the world renowned and respected schooling system continue to attract tenants to the likes of Chelsea, Belgravia, Kensington, Notting Hill, Mayfair and St John's Wood. In some markets demand has significantly outweighed supply, and that creates an exciting market with a sense of exclusivity – something that tenants at this level want.

As well as this, tenants are more transient than ever. Whether it's a short or long lease, around 85% of demand is for fully furnished, turnkey properties. Home owners who have decided to renovate or make home improvements often look to rent a temporary property nearby. The question so often has become 'can I still walk my children to school and pop to the building project easily from here?'.

There's undoubtedly a preference for keeping available properties to rent off market, especially when newly launched. Around 70% of our super prime lettings stock – homes achieving north of £5,000 per week – are kept offline. This is mainly down to landlord and tenant discretion and enhanced security for both sides – as there's no digital footprint left behind. Some clients believe they will get a more committed tenant by keeping things discreet, while others simply want to test the water.

Something to emerge this year is the more considered and highly selective approach that tenants are taking when it comes to finding their next rental property. During the pandemic there was more of a scattergun approach to viewing and finding a property, but this has since subsided and now clients are viewing fewer properties that precisely fit their brief. As great as it is to see multiple options, applicants are realising that trusting your agent on what is out there is the best thing in navigating these 'under the radar' market conditions.

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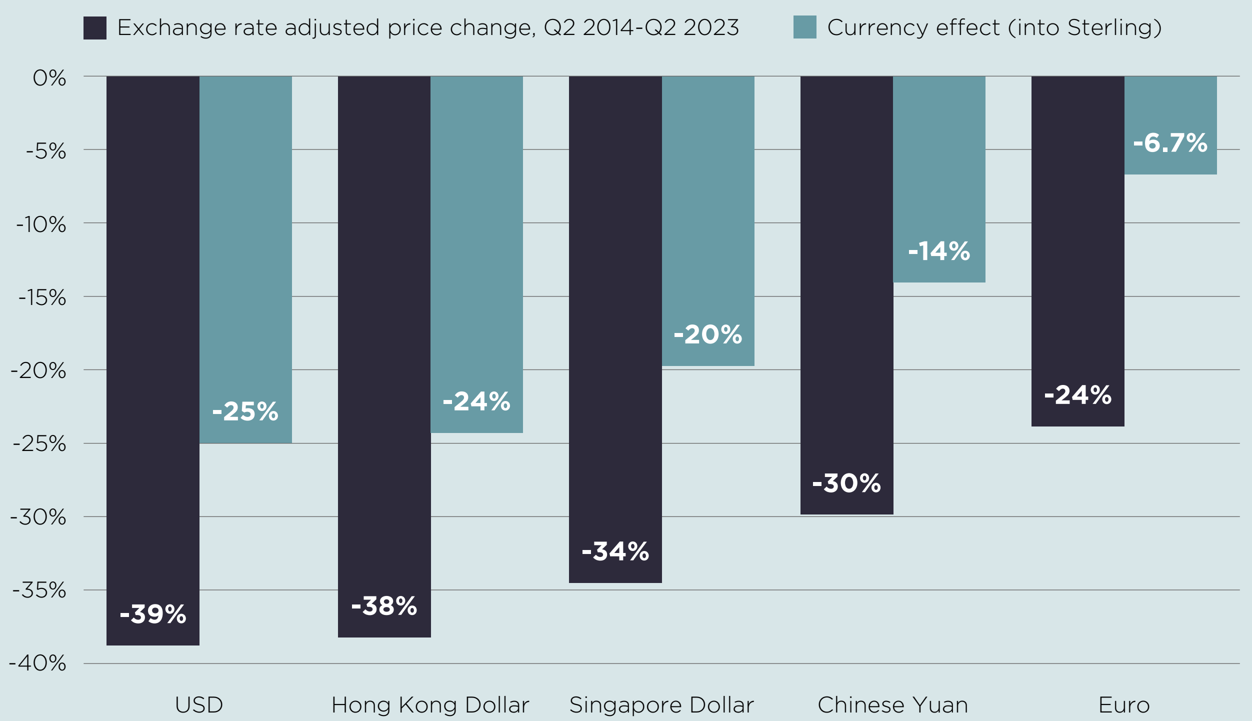
Why London? Frequently it is education, education, education. Those who have children in full-time schooling are looking for larger homes, with their property search often starting with the word 'detached'. But it's hard to find this in areas of prime central London. On the other end of the spectrum, there are the families looking for pieds-à-terre. Most are searching for a turnkey apartment in a building with concierge and amenities. New developments such as The Old War Office, The Whiteley and Chelsea Barracks, to name a few appeal here.

Another factor driving buyers to super-prime London property is relocation. We're seeing new international buyers looking to put roots down in prime central London. Whether they're coming from the wealth corridors of America, the Middle East or Far East, it's the culture, time zone, business environment and language that tends to draws them here. Those coming from the US appreciate the similarities in culture, and we're seeing more American buyers looking to permanently relocate to London for this reason. Those from the East are drawn by the cosmopolitan environment and that London is a truly global city.

My advice to buyers looking at the upper-end of the market is to be decisive. A 'watch and wait' strategy won't work as properties of the best calibre don't come to the market often and supply of quality (and especially large) properties in incredibly constrained and diminishing. Central London has a plethora of property types and neighbourhoods that may also tick the boxes of your wish list if you are open minded to explore them. If you're selling, be realistic with your pricing strategy – it can take a long time to sell a house at the top of the price brackets so be patient. So a degree of pragmatism and patience is required.

CURRENCY ADJUSTMENTS



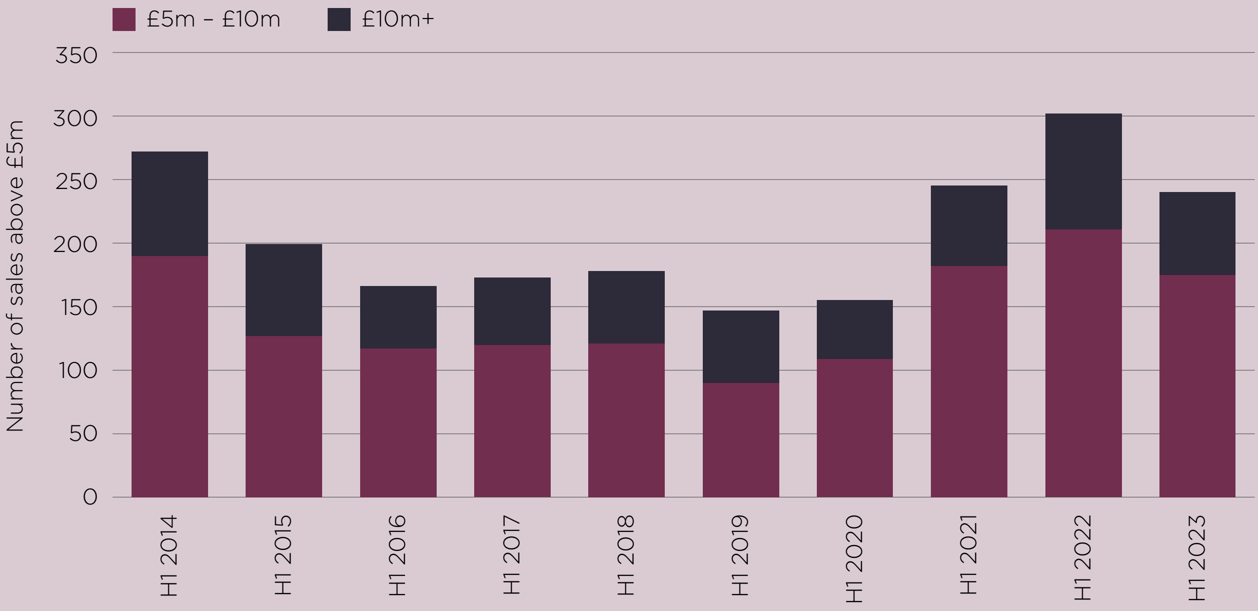
Source: Savills Research

THE DATA SUPPORTING THE MARKET

Our data-focused approach details the latest price and transactional activity, while providing valuable historical context to these movements.

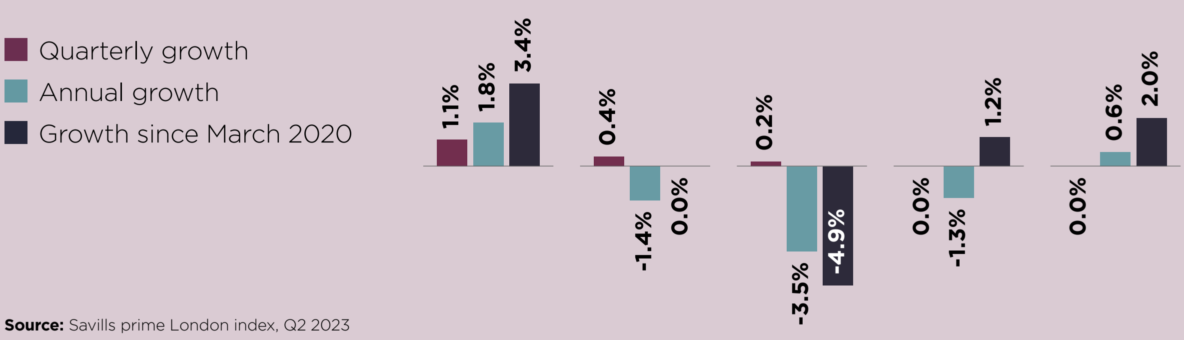
LONDON'S £5 MILLION-PLUS RESIDENTIAL MARKET BACK IN BUSINESS AFTER A SLOW FIRST QUARTER

A total of 240 properties worth more than £5 million changed hands in the first half of the year. While this is 21% down compared to H1 2022 it's 45% above the H1 2017-19 average.



Source: Savills Research

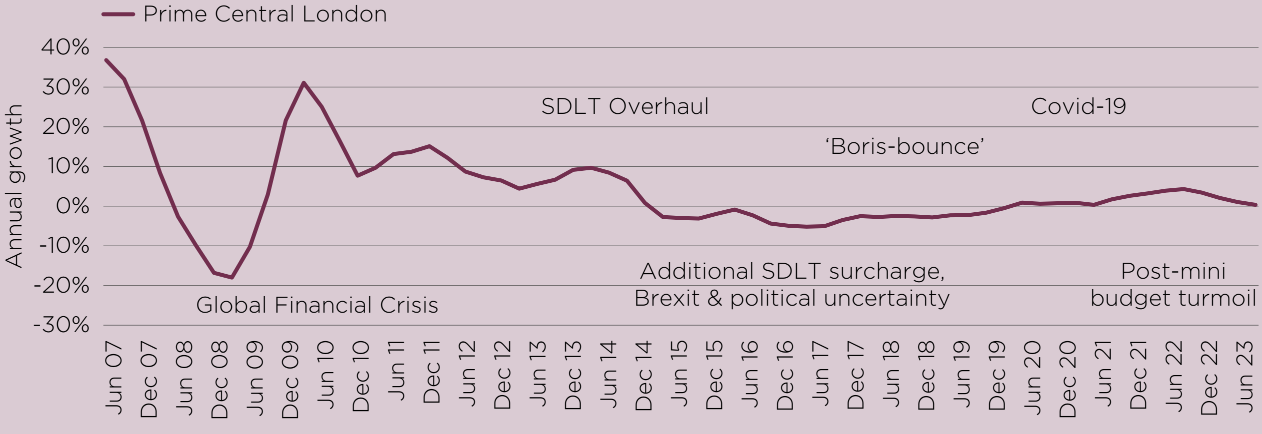
PRICE MOVEMENT BY PCL DISTRICT



Source: Savills prime London index, Q2 2023

PRIME CENTRAL LONDON PRICE MOVEMENTS

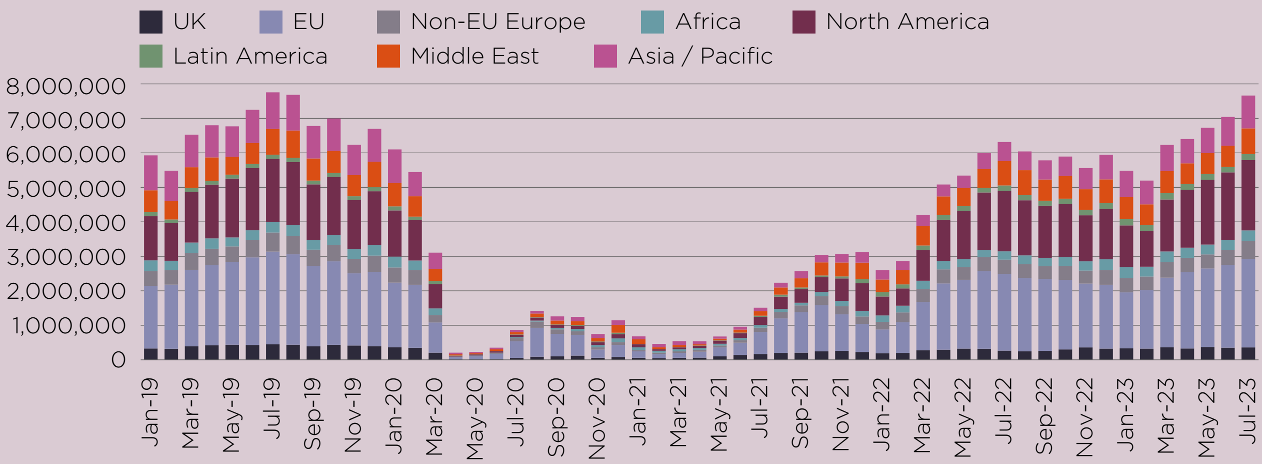
Prices across prime central London remain -18% below their previous peak in 2014, having faced a number of headwinds since then.



Source: Savills prime London index, Q2 2023

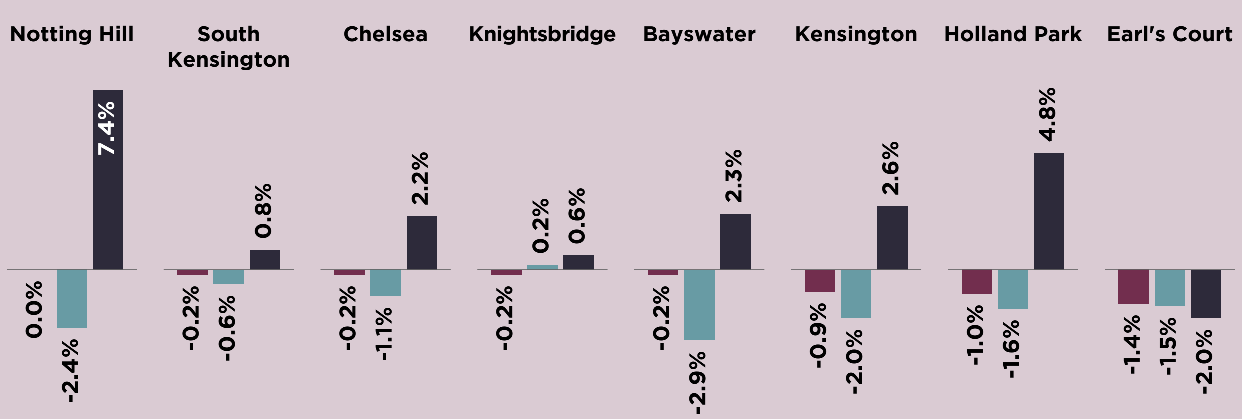
UK RESIDENT, NON-DOM TAXPAYERS

Heathrow arrival numbers throughout the summer are almost back up to the levels seen before the pandemic in 2019.



Source: Savills prime London lettings index, Q2 2022

NB: Excludes Gatwick, Stansted, Edinburgh, Naples, Aberdeen, Glasgow and Southampton



OUR AGENTS

LOCAL AREAS

Our agents discuss what makes prime central London districts and micro-hoods so desirable.

CHELSEA

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Best-in-class, turnkey properties in Chelsea are still holding their value, and in some cases being sold for record prices. At a super prime level, £8 million plus homes are selling well with purchasers buying into a lifestyle and community.

This explains the popularity and success of Chelsea Barracks. The scheme also meets other buyer criteria; security is incredibly important, particularly to Americans, and outside space continues to command a premium.

Asian buyers have been very active over the last few months, as well as families who made the move to the countryside during the pandemic but have come back to prime central London.

Chelsea offers the feel of a Home Counties' golden village but with the convenience, bustle and culture of the King's Road and Sloane Square. Pretty enclaves such as Chelsea Green and Markham Square have a strong community feel, with independent and artisanal stores.

More change is coming with The Lucan Autograph Collection, which will be the first branded Marriott residences in the UK. The boutique building will present 31 new one- to three-bedroom apartments next year priced from £3 million.

A major factor fuelling the rental market this year is education. Students are back, renting apartments around South Kensington and Sloane Square, often funded by their parents. The new Renters' (Reform) Bill and last year's 12% rise in rents means students are on the hunt for two-year contracts. They do not want to commit to high rents only to be moved on in a year's time, which has made for a busy summer.

CAPITAL VALUE GROWTH SINCE MARCH 2020	RENTAL VALUE GROWTH SINCE MARCH 2020
+2.2%	+16.0%

CAPITAL VALUE GROWTH SINCE MARCH 2020	RENTAL VALUE GROWTH SINCE MARCH 2020
+2.6%	**+8.6%**

KENSINGTON

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Leafy streets, proximity to swathes of green space, internationally renowned schools and large family houses with gardens mean Kensington is dominated by families. There are plenty of local hero businesses all adding to the bustling community scene.

This market is fuelled by domestic families upsizing and downsizers selling country houses and moving back into town. The latter choose mansion blocks serviced by a lift and a porter and are major movers in the Kensington apartment market this year. US buyers are also active, taking advantage of the currency play.

The lettings market has been frantic over the last few years with multiple bids on every property. Although rents are softening, smaller landlords are selling off their investments which is squeezing supply and will cushion rents.

Kensington's supply of world class developments include Holland Park Gate and Lancer Square, neighbours to the expansive green spaces of Holland Park, and Kensington Gardens respectively.

Holland Park Gate, sits behind the much loved art deco façade looking towards the southern entrance of Holland Park. Due to complete next year, it has caught the attention of both local and international purchasers eager to secure a best in class home in this sought after location.

Queensway is being regenerated and bookended by two impressive schemes. Park Modern sits on north-western corner of Hyde Park and completed this summer. It has sold well and the final wave of apartments have recently been released starting from £2.15m. Jeremy King's new restaurant, The Park, will sit on the ground floor and takes influence from Europe's grand cafes and brasseries.

The Whiteley's art deco shopping centre at the other end of the Queensway has undergone a £1bn transformation into a state-of-the-art boutique complex of hotel, (the UK's first SixSenses) apartments and retail stores. These exciting projects have triggered the upgrade of Queensway and a price uplift for properties in the surrounding residential roads is set to follow.

KNIGHTSBRIDGE

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A renewed and palpable interest in Knightsbridge is building. Enquiries from buyers, the number of viewings, and footfall on its newly manicured curb scape is rising.

In particular, £10 million-plus trophy homes are selling well. There has been a re-emergence of activity this year with the international buyer back perusing this exclusive neighbourhood, which was very much their stomping ground prior to the pandemic.

Things have changed in their absence. The Knightsbridge Estate has completed its regeneration of a corridor of historic buildings in the heart of Knightsbridge, turning it into the ultimate shopping experience with a vast Apple showroom and a flagship Burberry store. The now-pristine pavements have been widened to improve the retail realm, the underground station significantly improved and 10,000 sq ft of new commercial space has been created.

Behind its flawlessly restored red brick Edwardian facade are 15 state-of-the-art luxury apartments at Knightsbridge Gate with 24-hour concierge. The prestigious residential landmark sets the scene for a newly invigorated Knightsbridge which, in the context of prime central London, is about to have its moment.

The lettings market in Knightsbridge continues to be buoyant with the calibre of property ever increasing. Landlords recognising the wants and needs of their tenants are seeing their properties let quickly, with some opting to fully re-develop exquisite houses and showstopping penthouses to cater to the local families and global players that occupy these homes. For some tenants, Knightsbridge is the ultimate destination to have a base thank to accessibility to high-end shopping and restaurants. Others are laying down roots and want to be central for work, school and nearby Hyde Park.

CAPITAL VALUE GROWTH SINCE MARCH 2020	RENTAL VALUE GROWTH SINCE MARCH 2020
+0.6%	+13.7%

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The world-leading developments No.1 Grosvenor Square, Twenty Grosvenor Square and 60 Curzon, in addition to the promise of the new Rosewood Hotel and long-term investment by the Grosvenor Estate into streetscape and landscaping helped to put Mayfair back on the map.

There's a fine selection of restaurants lining North Audley Street, which runs to Grosvenor Square where the central garden is being transformed into a biodiverse habitat.

The number of new members' clubs is growing with an offering for every demographic, while old haunts such as the members' club George has been stylishly refurbished and reopened.

Mayfair's rich history, heritage and private member's clubs heavily influenced the architectural practice at 60 Curzon. Designed by Thierry Despont, whose portfolio includes; The Carlyle Hotel, Claridge's and The Ritz Paris, this deco-modernist building comprises 32 private residences. Prices start from £10.95m for a two-bedroom apartment and it is set to be unveiled this autumn.

The streets of Mayfair feel busy as reflected in the property market. Demand was consistent throughout 2022, mainly from dollar-based buyers, which has helped prices to settle and find their level this year.

Properties that are either historically special or within the right value window are enticing multiple interested parties. After all, values are still approximately 15% to 20% below where they were at the last peak, layer in the dollar-sterling exchange rate and that presents a hefty discount. Newly renovated homes with a lift and a porter are selling well, but anything that requires substantial works or is outside the value window misses the market.

Tenants are as discerning as buyers. Global high net worth individuals want a base in Mayfair, but they will wait for the right turnkey product. Despite the development boom in Mayfair, its most significant in 100 years, there is still not an adequate supply of what people want to buy or rent.

CAPITAL VALUE GROWTH SINCE MARCH 2020	RENTAL VALUE GROWTH SINCE MARCH 2020
+3.4%	**+9.7%**

NOTTING HILL

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For many, Notting Hill is a lifestyle choice. Families are drawn to the friendly areas around Westbourne Grove and affluent young professionals to the cool and quirky Portobello Road. Housing stock ranges from private mews enclaves to pastel coloured family homes. There does not seem to be one type of person buying or renting in Notting Hill as it presents something for everyone, whether that be for food, architecture or shopping. Neighbourhood restaurant, Gold, on Portobello Road pulls in crowds from all over London while locals love Ottolenghi for their morning coffee.

Over the last three years buyers and tenants have flocked to this vibrant yet relaxed area and in particular its garden squares which have performed extremely well. Up until the end of 2022, it seemed the Notting Hill market would never cool.

Inevitably, against a backdrop of interest rate hikes and uncertainty surrounding the financial markets, demand is beginning to soften. Deals are still being done but there is a cautiousness and a change of sentiment with buyers taking more time over their purchase as there is less competition. In fact, after a frenetic period, this feels like a return to a more normal market.

Lettings has followed a similar pattern. Since international business and office workers returned after Covid, along with executive relocation, properties were flying off the shelves. This year, there just isn't the same bun fight. However, as small landlords start to sell off their investments, supply will be squeezed, a trend being seen across much of prime central London.

CAPITAL VALUE GROWTH SINCE MARCH 2020	RENTAL VALUE GROWTH SINCE MARCH 2020
+7.4%	**+14.9%**

ST JOHN'S WOOD

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The flight to space, a defining trait of the pandemic housing market, triggered a flight to St John's Wood. The sense of village, size of plot and availability of houses with outside space drew in prime central London buyers who had never before considered going north of the Marylebone Road.

Demand has continued and a lack of stock means prices in general have been propped up over the last 12 months, despite the economic backdrop. However, some motivated and savvy sellers have started to reduce their asking price now anticipating a correction leading up to the general election. St John's Wood, compared to more central pockets of prime central London, therefore still looks good value for money.

The well-curated high street has come a long way and adds to the village vibe; an Ivy restaurant sits at one end and a Parisian café, Soutine, at the other. There's a six-month landscaping project underway which resembles other successful projects on Mount Street in Mayfair and Elizabeth Street in Belgravia.

The biggest change however will come in the shape of a new micro neighbourhood to the east. The old King's Troop army barracks is being reimagined as St John's Wood Square. A £1.5bn family-orientated development that has been designed by Squire & Partners – the architects behind Chelsea Barracks. It will offer apartments and townhouses set amongst beautifully landscaped gardens. The Grade II listed riding school will be retained and become the centre for an extensive amenity offering, up there with the very best in London.

CAPITAL VALUE GROWTH SINCE MARCH 2020	RENTAL VALUE GROWTH SINCE MARCH 2020
+8.1%	+12.4%

SLOANE STREET

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The stately red brick townhouses and mansion blocks that surround the private garden squares off Sloane Street are among the world's most desirable addresses. Regardless of the economic headwinds which have dampened sentiment, best-in-class, family-sized houses with outside space have held their value.

The London family who are moving for schools, or upsizing within the area are active as life events dictate the need to move. Then there's the elite who are living out a fantasy by living on the likes of Eaton Square.

However, interest rate hikes, inflation and economic uncertainty have impacted the apartment market. 2023 has been the year of price realignment in this sub-sector. Although the value of apartments has come down 18% since 2014, and the strength of the US dollar against the pound means these properties present good value, some overseas cash buyers are still waiting to see whether prices will slide further. This pricing correction coincides with the re-emergence of the international buyer, in particular American and Asian buyers. This suggests the apartment rebound is due.

There is high demand for turnkey standard residences which has fuelled interest in luxury developments such as 8 Eaton Lane in Belgravia with 42 apartments, a pool and gym. It completes in 2024. Set around seven garden squares and master-planned landscapes, Chelsea Barracks is built from fossilised limestone and designed to imitate the London square garden. An exciting new Spanish restaurant – the Campaner (the Bell Ringer) – has opened on site too. These schemes frame south Belgravia and become the southerly finale of Sloane Street.

CAPITAL VALUE GROWTH SINCE MARCH 2020	RENTAL VALUE GROWTH SINCE MARCH 2020
+2.0%	**+18.6%**

GLOBAL PERFORMANCE

LONDON IN A GLOBAL CONTEXT

In the first half of 2023, global prime residential markets saw a continued slowdown in activity, with capital values rising by just 1.1% across the 30 cities included in the Savills World Cities Prime Residential Index during the first six months of the year.

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This is compared to growth of 0.8% in H2 2022. To June 2023, year-on-year growth is 1.9%, the slowest annual growth since December 2020, as uncertainty surrounding current market conditions has led to caution amongst some buyers and sellers.

London saw flat price growth over the course of the first half of the year as consumer sentiment was dampened by high interest rates and inflation. Other European cities, such as Paris, Berlin, and Amsterdam, have all seen slower growth by comparison. Buyers are less active amidst rising interest rates and a lack of high-quality stock. Scarce supply is fueling price growth, on the other hand, in Sydney (+3.3%), Barcelona (+2.8%) and Madrid (+2.2%), each attracting wealthy buyers despite rising interest rates. The highest capital value growth was seen in Dubai, with growth of 11.2%.

Other cities with higher levels of capital value growth include Mumbai, Cape Town, and Bangkok all of which saw capital values grow more than 3% in the first half of 2023. These cities are returning to pre-pandemic pricing as international buyers return.

For buyers looking in these global cities, the purchase price isn't the only element that needs to be considered when buying a prime property. There are additional costs to be factored in. London sits firmly mid table, while on the left hand side there are cities with more punitive additional property and foreign buyer stamp duties, such as Singapore and Hong Kong.

Prime residential rents are continuing their run of growth, increasing by 2.6% across the 30 cities in the index during the first six months of 2023. Several factors contributed to this upward trend, including the scarcity of available high-quality rental properties and the preference, for some, to 'try before they buy'. Lisbon and Singapore saw the strongest rental growth among global cities, each recording increases of more than 13% in the first half of this year as international tenants drive demand for prime residences.

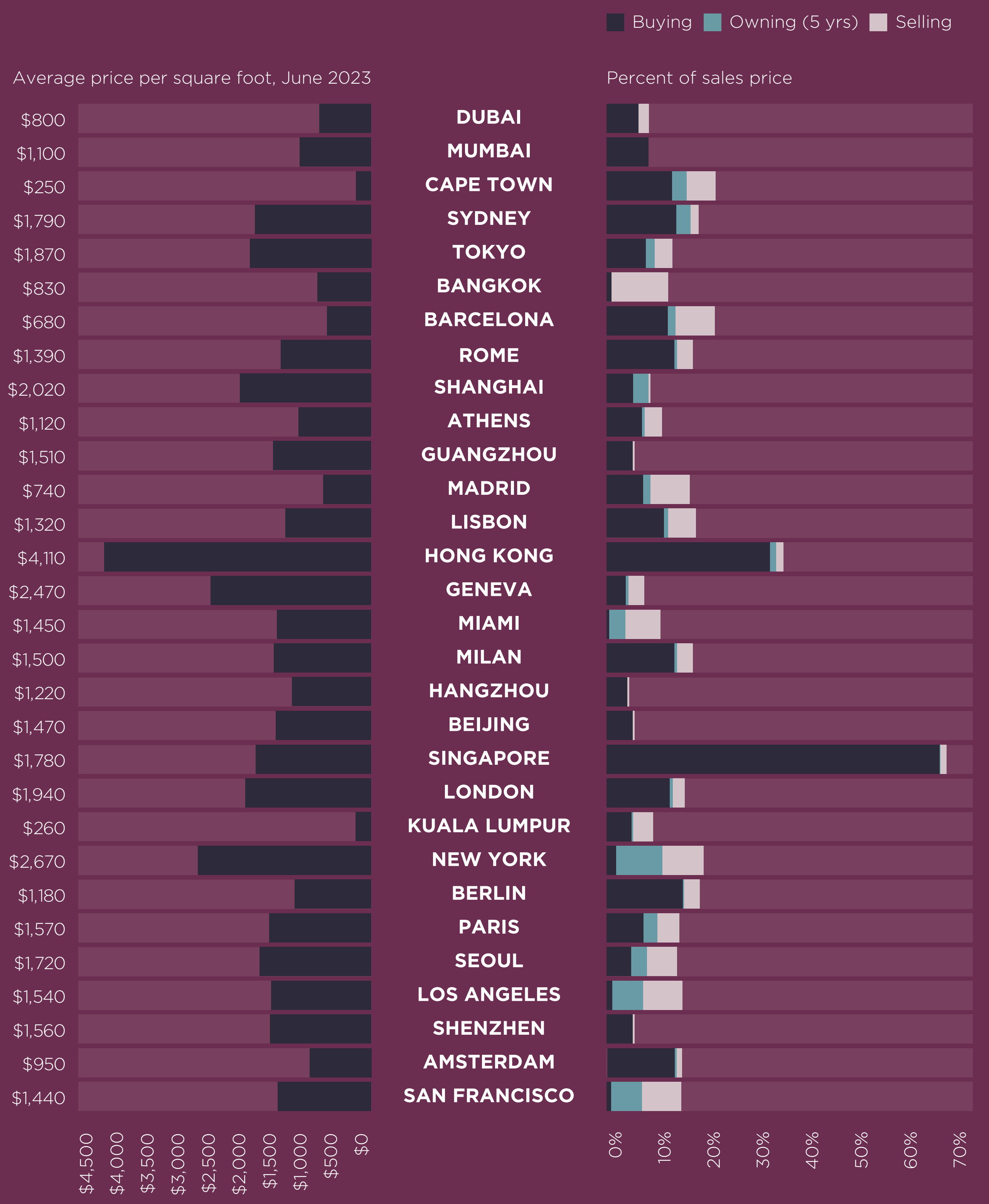
Like London, rising interest rates and weak economic outlooks are weighing on consumer sentiment and pushing ever more tenants into the rental markets in major world cities. As supply was already limited, the surge of renters who are would-be buyers has made the market hotter than ever.

For the rest of the year, we expect these trends to continue globally. Supply of rental stock is expected to remain tight in many world cities. Several factors, including rising construction costs, development challenges, and increasing debt costs, contribute to the limited availability of prime inventory and the upward pressure on rental prices.

The outlook for capital values remains muted, on average, across our 30 World Cities, our prime capital value forecast for the remaining six months of 2023 stands at 1.1%, on par with the 1.1% recorded in the first half, albeit up on the 0.8% achieved in H2 2022.

CAPITAL VALUES

COSTS OF BUYING, HOLDING, AND SELLING PRIME PROPERTY IN THE WORLD CITIES



Source: Savills Research

Note: For the standard scenario in the chart above, we assume a foreign buyer, purchasing a $2m equivalent property, holding for 5 years, then selling.No capital growth is included, removing the need to factor in Capital Gains Tax. All of the costs in the chart are expressed as a share of property value.

COUNTRY HOUSE

REGION TO REGION: HOW COUNTRY HOUSE PRICE GROWTH HAS VARIED

Since the pandemic, the country house market has flourished off the back of the desire for more space and a change in buyer lifestyle preferences.

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As recent trends from the pandemic have shown, many people living in urban areas have been in search of larger properties and access to greener locations, promoting demand for prime country homes. This movement has been a driver of sustained price growth for the top end of the country house market as average values have increased by 14.0% since March 2020.

However, in light of more recent economic pressures, the rate of house price growth has begun to slow. The more discretionary country house markets, where buyers tend to be less reliant on mortgages, are somewhat insulated from rising interest rates and inflationary pressures. Even still, values fell by -1.5% in the three months to June 2023, leaving them down -4.4% annually. Buyers have become more cautious with discretionary spending and are now more acutely aware of their budgets.

There has also been significant regional variation. The Scottish country house market, which offers more value and stock remains constrained, has outperformed with marginal growth of 0.5% in Q2 2023. This is in contrast to areas in the South of England such as the South East, Cotswolds and Surrey where values have fallen by between -1% and -5%.

Other top performing markets since the pandemic include coastal areas which possess desirable lifestyle qualities for buyers. This demand is evident as those prime country houses with a coastal view cost an average of £1,054 per square foot, almost double that of those with no views. Country houses located on the coast also recorded the smallest quarterly falls of -1.0%, leaving them up by 20.2% since March 2020.

Looking ahead, cost of living pressures and economic uncertainty are likely to mean price growth continues to slow across the prime country house markets. Buyers will therefore maintain a cautious approach to discretionary spending and sellers who price realistically will attract the most interest. That said, the country house market tends to be driven by flows of global equity and, although not immune, will continue to hold up more strongly against economic uncertainties.

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We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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