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London

Residential Market Update

May 2018

Sentiment surrounding the UK's economy at present is ambivalent. The optimism prompted by factors such as strong employment, increasing wages, and decreasing inflation levels and deficit are undermined by weak retail sale figures and disappointing economic growth (just 0.1% is estimated for Q1 2018, according to the Office for National Statistics). And then, of course, there's Brexit.

As the UK's departure from the European Union in March 2019 draws ever closer, the uncertainty surrounding it continues. Nonetheless, there has been progress. Earlier this year, a treaty governing the transition period was agreed, covering considerations including citizens' rights and the financial settlement.

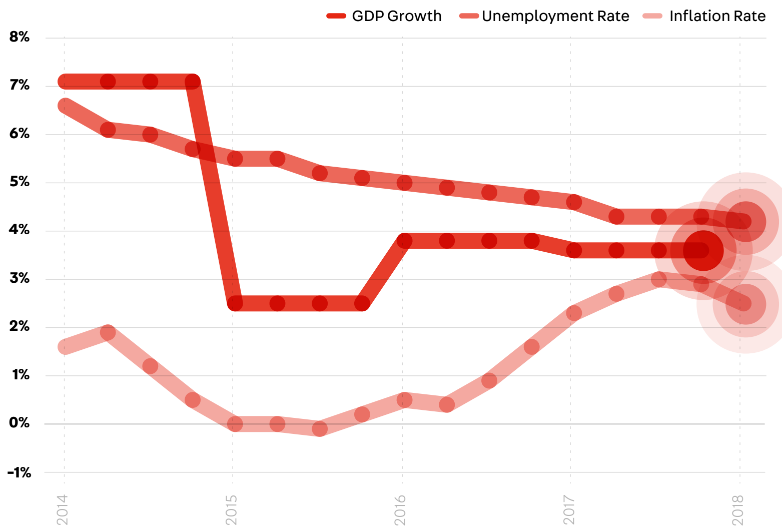
There is also little evidence that Brexit has caused any damage to London's position as a financial services hub. Earlier this year, two major surveys found that it had retained its title as the leading global financial centre, and the Bank of England recently lowered its estimated number of job losses in the sector. Such developments are cause for optimism, especially given the strong demand in the prime London sales and lettings markets seen from the financial services sector.

Each new piece of economic data that emerges has an impact on the movements of the pound but, in April this year, it was trading at above $1.40 – a marked improvement on its post-referendum levels of $1.22 in January 2017.

Economic indicators

Nominal GDP growth for London, UK wide employment, inflation and the Bank of England base rate

3.6%	**GDP Growth** December 2017	0.5%	**Bank of England Base Rate** April 2018
4.2%	**Unemployment Rate** February 2018	2.5%	**Inflation Rate** March 2018



Source: Knight Frank Research, Macrobond, Oxford Economics, ONS, Bank of England

London Sales Market Insight

Current conditions in the London sales market.

5

Years since there has been **double-digit price movement in either direction** in prime central London

6%

More sales in prime central London in the first 3 months of this year **compared to the same period last year**

1.1%

Decline in average prices in prime central London in the year to March 2018

Despite some of the dramatic headlines, conditions in the prime London property market are in fact relatively stable.

For example, the Knight Frank prime central London index has not moved by more than 10% in either direction for more than five years, which is the longest run since our records began in 1976.

Average prices in prime central London fell 1.1% in the year to March 2018 an improvement compared to the 6.4% decline seen a year earlier.

Overall, prices are down 8% from the market peak in mid-2015 but that pales in comparison to the 24% drop that followed the collapse of Lehman Brothers or the 21% fall in the early 1990s as the UK headed towards a recession.

So, what's going on?
In simple terms, the market is responding to various factors that are keeping things broadly in check.

First, higher rates of stamp duty have curbed price growth and sales numbers in recent years.

However, while buyers continue to scrutinise the market for value, stamp duty is no longer the widespread obstacle it once was. This is particularly true in some high-value areas of central London where asking prices have adjusted more rapidly.

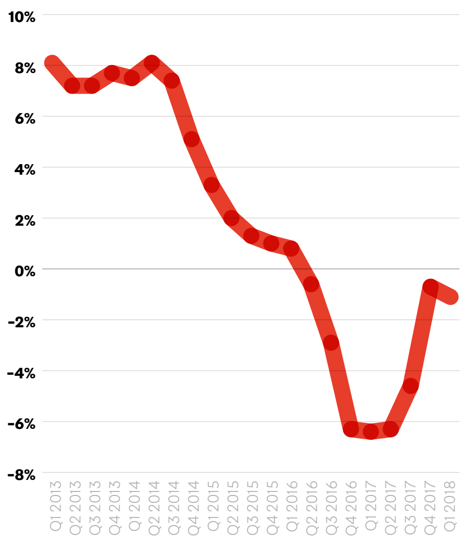
As a result, there were 6% more sales in prime central London in the year to March 2018 compared to the previous 12 months.

Secondly, there are competing economic factors at work. On the one hand, record low levels of unemployment, low interest rates and a structural undersupply of homes all support pricing. On the other, affordability pressures keep price inflation in check.

The third part of the equation is political uncertainty. While stamp duty is a more accepted fact of life and the economic backdrop is mixed, uncertainty surrounding Brexit has created an added dimension of uncertainty.

Residential prices

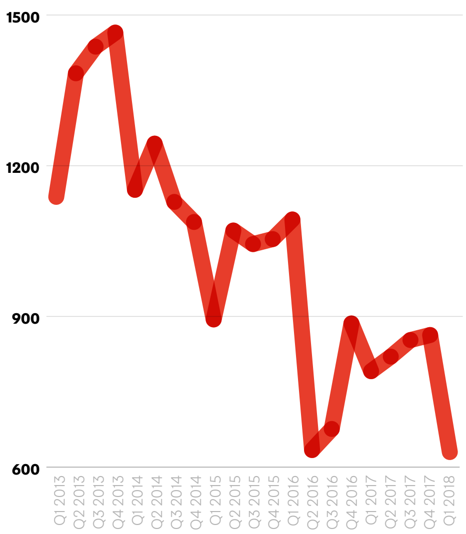
The annual percentage change in residential prices in prime central London



Source: Knight Frank Research, Macrobond

Residential transactions

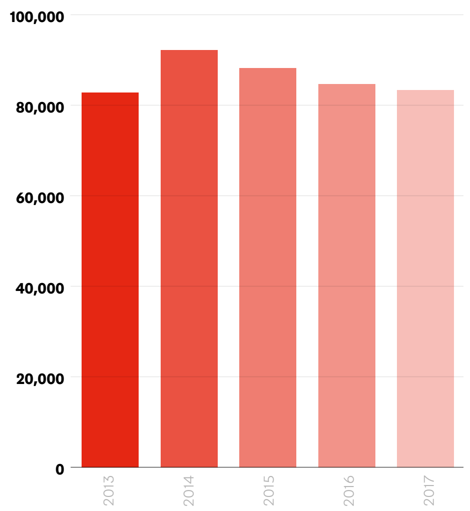
The number of transactions in London residential property



Source: Knight Frank Research, Macrobond, LonRes

Household growth

The annual increase in number of households in London



Source: Knight Frank Research, Macrobond, Oxford Economics

London Lettings Market Insight

A look at the recent conditions in the London lettings market.

8%

More tenancies agreed in the first 3 months of this year compared to **same period last year**

30

Consecutive months of **rents falling in prime central London**

13%

Fewer lettings listings in the first 3 months of this year compared to the **same period last year**

In order to understand the performance of the prime London lettings market in recent years, you need to look more closely at supply than demand.

Supply has been high compared to the historical average, which means rents have been falling.

In fact, rents fell on a quarterly basis in prime central London for the 30th consecutive month in March, a record over the last two decades.

Why are there so many lettings properties on the market? The simple answer is tax.

In this case, stamp duty, which curbed price growth in the sales market to the point that more owners decided to let than sell.

This effect was magnified by a spike in the number of landlords who bought ahead of the introduction of a 3% stamp duty surcharge in April 2016.

As a result of this build-up in supply, tenants have had the upper hand when negotiating rents and renewing tenancy agreements.

However, we have started to see the balance of power tip back in favour of landlords as supply comes down.

The reason for the reversal is also primarily tax-related. This time, a series of new restrictions around tax relief and other allowances for landlords.

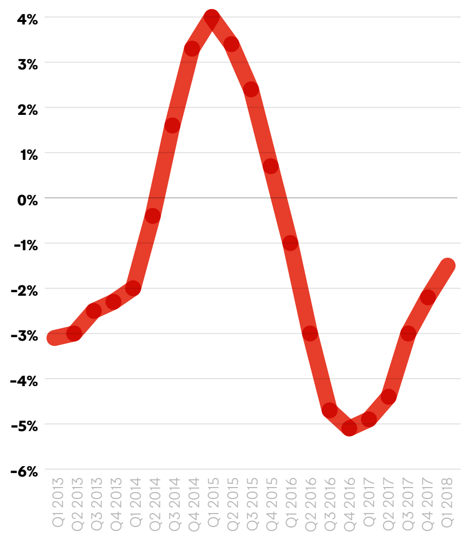
A survey by insurer AXA last year showed almost half of UK landlords planned to leave the private rented sector by 2020. Indeed, the number of new lettings listings in prime central London fell 13% in the year to March compared to the previous 12-month period, Rightmove data shows.

The knock-on effect was that average rents only fell by 1.5% in the year to March compared to a 4.9% decline a year ago.

Indeed, demand remains strong as renting becomes a more accepted tenure model as affordability pressures grow in London.

Rents

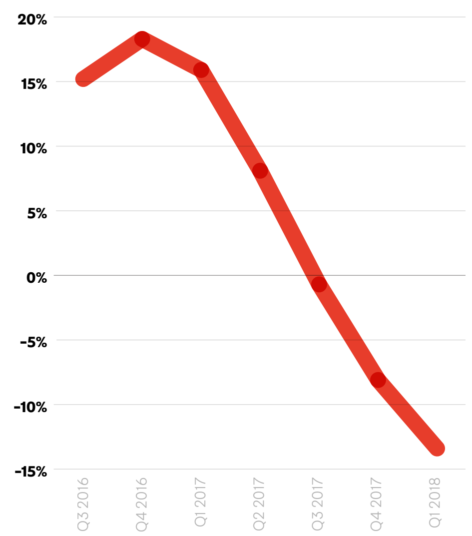
The annual percentage change in rents in prime central London



Source: Knight Frank Research, Macrobond

Listings

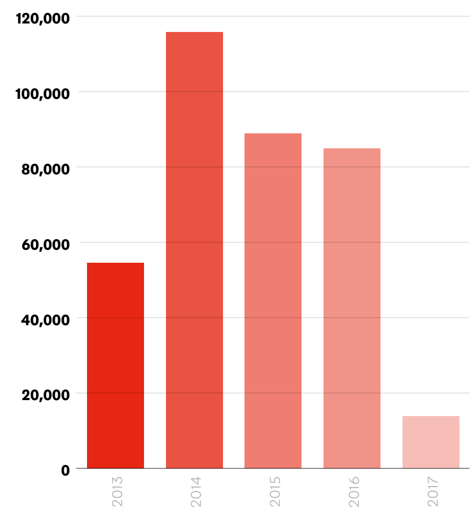
The annual percentage change in number of listings on Rightmove (UK's largest property website)



Source: Knight Frank Research, Macrobond, Rightmove

Financial & business services

Annual change in employment in financial & business services

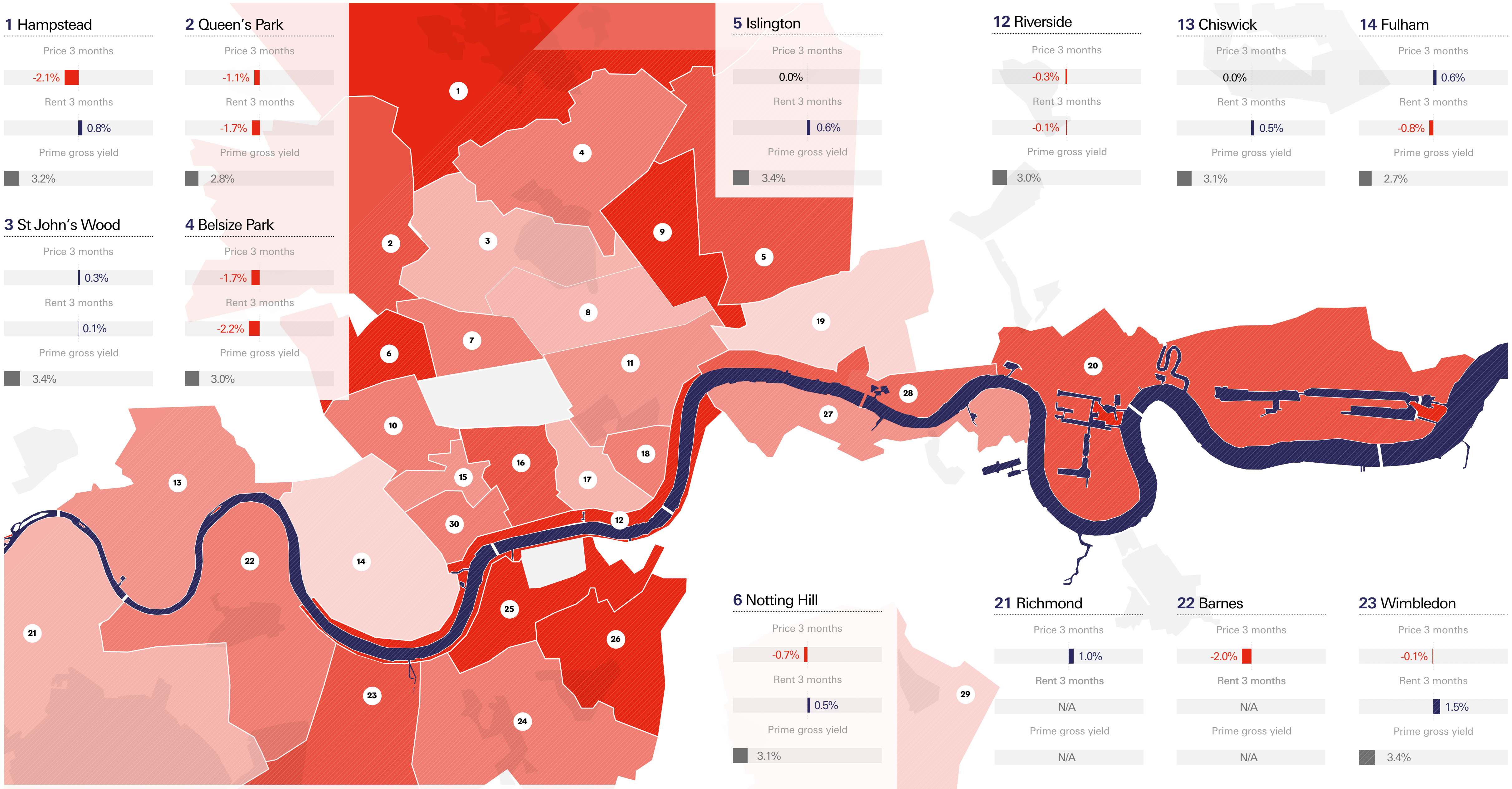


Source: Knight Frank Research, Macrobond, Oxford Economics

Local Performance

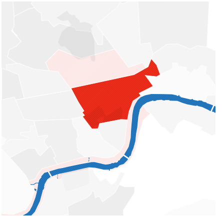
Local Residential Market Performance

A look at market performance on a neighbourhood level over the past 3 months.



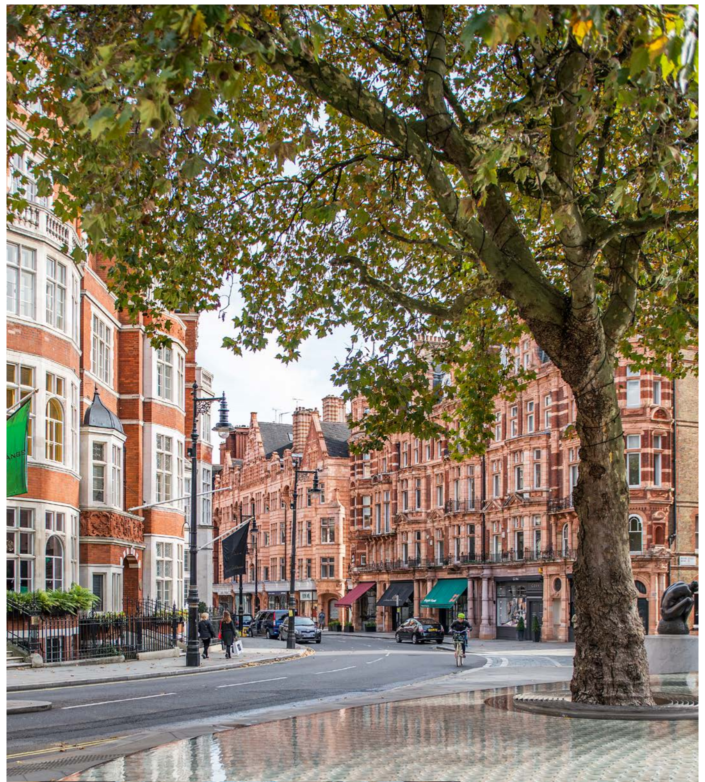
Neighbourhood	Price 3 months	Rent 3 months	Prime gross yield
1 Hampstead	-2.1%	0.8%	3.2%
2 Queen's Park	-1.1%	-1.7%	2.8%
3 St John's Wood	0.3%	0.1%	3.4%
4 Belsize Park	-1.7%	-2.2%	3.0%
5 Islington	0.0%	0.6%	3.4%
6 Notting Hill	-0.7%	0.5%	3.1%
7 Hyde Park	-0.3%	-0.1%	2.9%
8 Marylebone	0.0%	0.8%	2.9%
9 King's Cross	-0.2%	1.0%	3.9%
10 Kensington	-1.9%	0.3%	2.9%
11 Mayfair	0.0%	1.3%	2.3%
12 Riverside	-0.3%	-0.1%	3.0%
13 Chiswick	0.0%	0.5%	3.1%
14 Fulham	0.6%	-0.8%	2.7%
15 South Kensington	-0.3%	2.5%	2.8%
16 Knightsbridge	-1.1%	1.1%	2.5%
17 Belgravia	0.0%	-0.3%	3.0%
18 Victoria	-1.2%	N/A	3.0%
19 City & Aldgate	-0.7%	0.0%	3.80%
20 Canary Wharf	-0.8%	-0.7%	3.7%
21 Richmond	1.0%	N/A	N/A
22 Barnes	-2.0%	N/A	N/A
23 Wimbledon	-0.1%	1.5%	3.4%
24 Wandsworth	-0.8%	N/A	N/A
25 Battersea	-0.8%	0.7%	3.3%
26 Clapham	-1.3%	0.2%	3.4%
27 Tower Bridge	-4.0%	-0.3%	3.7%
28 Wapping	-0.1%	1.3%	3.3%
29 Dulwich	-0.4%	N/A	N/A
30 Chelsea	0.0%	-0.9%	3.3%

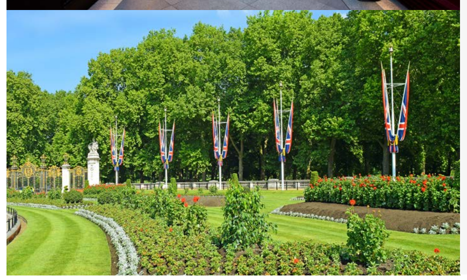
Local Focus



Mayfair

With a reputation dating back hundreds of years, Mayfair has become almost synonymous with gold standards and unadulterated luxury steeped in rich history. Whether you're looking for a beautiful home, a Michelin-starred supper or a couture gown, Mayfair is the ultimate destination. We take a look at what makes Mayfair a premium postcode.





What you could buy for…

£1 million
A one-bedroom apartment on Grosvenor Street

£5.25 million
A three-bedroom flat on St James' Street

£15 million
A Grade I listed five-storey mansion house

Mayfair has been the strongest performing prime central London market in the 40 years since the Knight Frank prime central London index was established in 1976. The area's reputation for super-prime luxury continues to grow – and so too does its prices. In June 1976, a house in Mayfair could be bought for £137,600. In December 2015, the same property would be worth a cool £10 million.

While the financial crisis saw this outperformance slow, prices grew 58% between the low point in March 2009 and December 2015, less than the 76% seen in Kensington, 71% in Knightsbridge and 62% in Chelsea, there is nonetheless new potential for growth. A premium development pipeline is in place that, due to the small size required by planning rules and space restrictions, offers minimal oversupply risk.

After the Second World War, Mayfair lost its prominence as the premier address on the London Monopoly board as businesses moved to Mayfair after their offices in the City had been destroyed. This particularly encouraged families to favour other neighbourhoods such as Belgravia and Knightsbridge.

In recent decades, as post-war temporary office permissions expired, more properties have been converted back to residential use. With increasingly stringent demands of buyers in prime central London the new residences coming to the market reflect that of the highest quality. Developments such as Twenty Grosvenor Square, couple gold standard finishes with luxury services such as a 24-hour concierge, gym and business facilities.

The attraction of of the Mayfair market has always been far reaching. This is evidenced by the fact that since 2013, the Knight Frank lettings business in Mayfair has agreed tenancies with 59 different nationalities. This is part could be due to popularity with international students due to its vibrancy and close proximity to many of London's leading universities.

Residents also benefit from a seemingly endless array of activities, a rich cultural history and expansive green space, such as the 47 acre Green Park, right on their doorstep.

There is an abundance of diverse culinary offerings as Mayfair is home to an overwhelming 30% of London's Michelin-starred restaurants, with an impressive 20 restaurants holding a Michelin-star or two. Mayfair also houses a plentiful retail offering with Chanel, Cartier and Louis Vuitton among the many classic brands along Bond Street. Couture designers and luxury boutiques being found on Mount Street, and upmarket department store Fortnum & Mason is in nearby Piccadilly.

Next Steps

Please contact your HSBC Premier Relationship Manager or call our HSBC Premier hotline:

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