



London

Residential Market Update | September 2018

Despite a slower than expected start to 2018, early indicators suggest that the UK economy has rebounded in the second quarter. The purchasing managers' index for services rose from 52.8 in April to 54 in May, pointing to an expansion of the service sector. Furthermore, according to the Office for National Statistics (ONS), retail sales volumes grew by 1.3% between April and May, surpassing analyst expectations of 0.5%.

With Brexit dominating the news, and weaker than expected inflation remaining at 2.4% in May, the pound has lost some of the gains seen at the beginning of the year to trade at \$1.32 at the end of June. As this increases international buying power in the London property market, this is likely to exert some upwards pressure on demand and pricing.

There has been a boost for London as a technology hub and financial sector. Since the EU referendum, British tech companies have received over £5 billion in venture capital funding – more than France, Germany and Sweden combined, according to a study commissioned by the London Mayor. Amazon, Facebook and Google are among the companies that have increased their London presence since the EU referendum.

In addition, a recent Reuters survey of 119 firms found that the estimated number of finance jobs to be shifted out of Britain or created overseas by March 2019 due to Brexit has halved in comparison to six months ago, standing now at only 5,000 roles.

Economic indicators

Nominal quarterly GDP growth for UK, UK-wide unemployment, inflation and the Bank of England base rate

0.8% | GDP Quarter-on-Quarter Growth Q1 2018

0.5% | Bank of England Base Rate June 2018

4.2% | Unemployment Rate May 2018

2.3% | Inflation Rate June 2018



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

London Sales Market Insight

Current conditions in the London sales market.

9%

Fall in prices in prime central London from their peak in August 2015

1.97%

The average difference between old and new stamp duty charges as a percentage of the sale price in the first six months of 2018

1/3

The proportion of the markets in prime central London reporting an **annual price growth in June 2018**

In June this year, prices in prime central London had fallen 9% from their previous peak in August 2015. In prime outer London, the decline from the last high point, which came a year later, was 6%.

The price declines suggest the prime London residential market has adjusted for the last two stamp duty hikes, introduced in December 2014 and April 2016.

Based on a sample of several hundred £1m-plus sales in prime central and outer London in the first six months of this year, the average difference between old and new stamp duty charges as a percentage of the sale price was 1.97%, rising to 4.97% when a notional 3% surcharge for second homes and landlords is added. For example, for a £1.7m home the additional stamp duty is £83,750, equating to 4.93% of the sale price.

Furthermore, the largest possible difference between the old and new stamp duty rates as a percentage of the sale price is 8%.

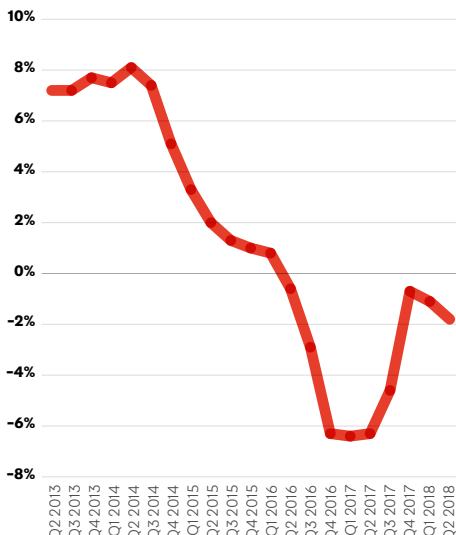
As property prices have adjusted arithmetically, sentiment becomes a more important driver of demand, which means the performance of the property market becomes less predictable. Approximately one third of markets in prime central London reported an annual price growth in June, whereas two-thirds reported a decline.

The area to report the highest price rise in June was Notting Hill (2.1%). One key driver of activity in this area has been needs-driven buyers, such as those moving for schooling or family reasons. As a result, it has gone from one of the weakest areas to one of the strongest for annual price growth over the past year.

Buyers remain price sensitive and are scrutinising the market for value, though sales volumes and pricing data continued to show a bottoming out pattern in the second quarter of the year.

Residential prices

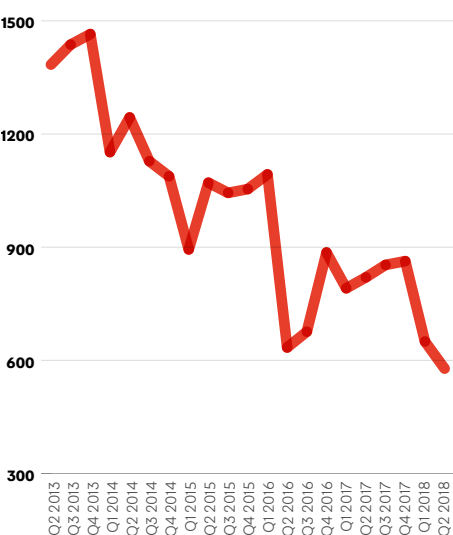
The annual percentage change in residential prices in prime central London



Source: Knight Frank Research, Macrobond

Residential transactions

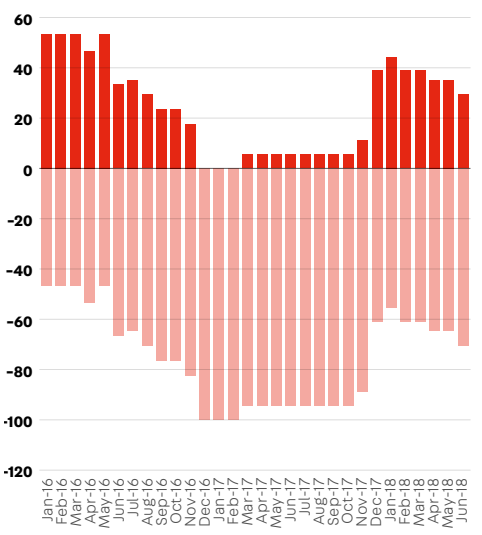
The number of transactions in London residential property



Source: Knight Frank Research, Macrobond, LonRes

Markets growing

The proportion of markets seeing an increase and decrease in prime central London



Source: Knight Frank Research, Macrobond, LonRes

London Lettings Market Insight

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

0.8%

Annual growth in London rents for the second quarter of 2018

16%

Fewer lettings listings in prime central London in the year to June 2018 than the year to June 2017

19%

More deals in the super-prime (£5,000+/week) market in the year to June 2018 than the year to June 2017

In June this year, annual rental value growth returned to prime central London for the first time since February 2016. Rents increased by 0.8% in the second quarter of 2018 when compared to a year ago. This followed a 28-month run of declines that bottomed out at -5.2% in November 2016.

Supply grew as more vendors opted to let their property, while the impact of higher stamp duty weighed on price growth. The number of lettings listings in prime central London was 18% higher in 2016 than 2015, LonRes data shows.

Tax measures affecting landlords also means more have explored selling; there were 16% fewer lettings listings in prime central London in the year to June 2018 than the previous year.

Clearly, government interventions have had an impact on supply/demand in the lettings market.

However, while rental value growth has returned, it would be premature to conclude that falling supply will put upwards pressure on rental values in a sustained manner. There is anecdotal

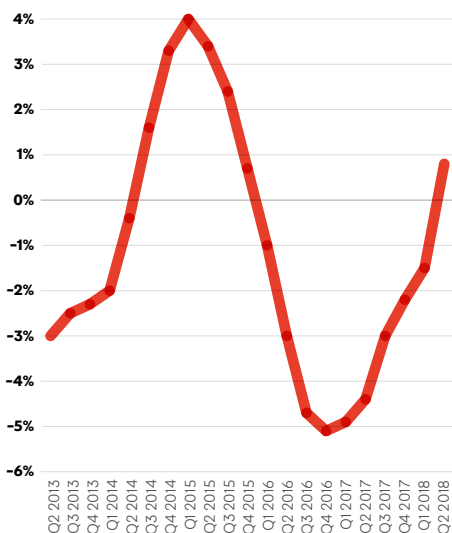
evidence of landlords returning to the lettings market after their pricing expectations were not met in the sales market, a trend that would be exacerbated should more landlords attempt a sale and thereby increase supply levels.

This indecision among property owners is reflected by the fact that more are listing their property for rent and sale simultaneously. Knight Frank's South Kensington lettings office now attends 70% of market appraisals with the sales team, compared to less than 10% a year ago.

By price bracket, the number of tenancies agreed in the super-prime (£5,000+/week) market grew at the fastest rate. There were 19% more deals in the year to June 2018 than the previous year, in large part due to higher rates of stamp duty at the higher-value end of the sales market.

Rents

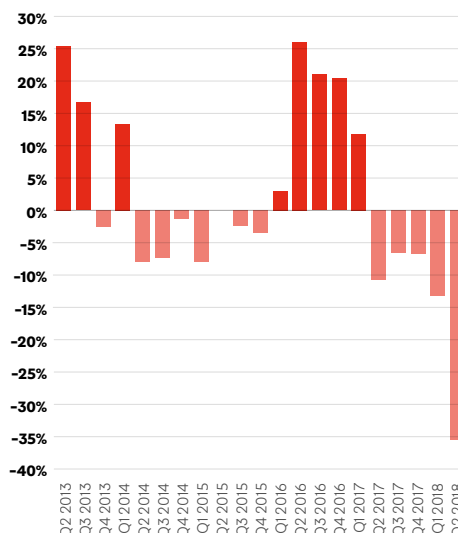
The annual percentage change in rents in prime central London



Source: Knight Frank Research, Macrobond

New lettings instructions

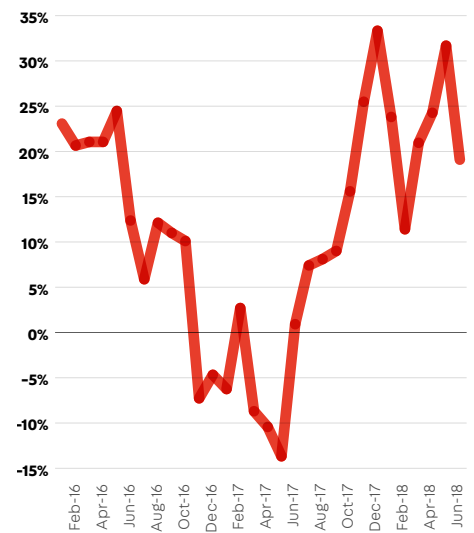
The annual percentage change in number of lettings instructions in prime areas of London



Source: Knight Frank Research, Macrobond, LonRes

Super-prime (£5,000+/week) tenancies

The annual percentage change in tenancies agreed



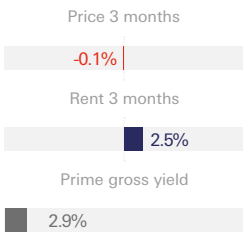
Source: Knight Frank Research, Macrobond, LonRes

Local Performance

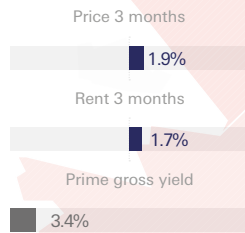
Local Residential Market Performance

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

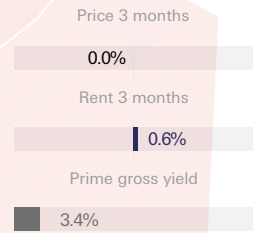
1 Hampstead



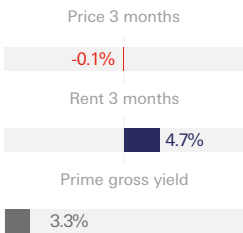
2 Queen's Park



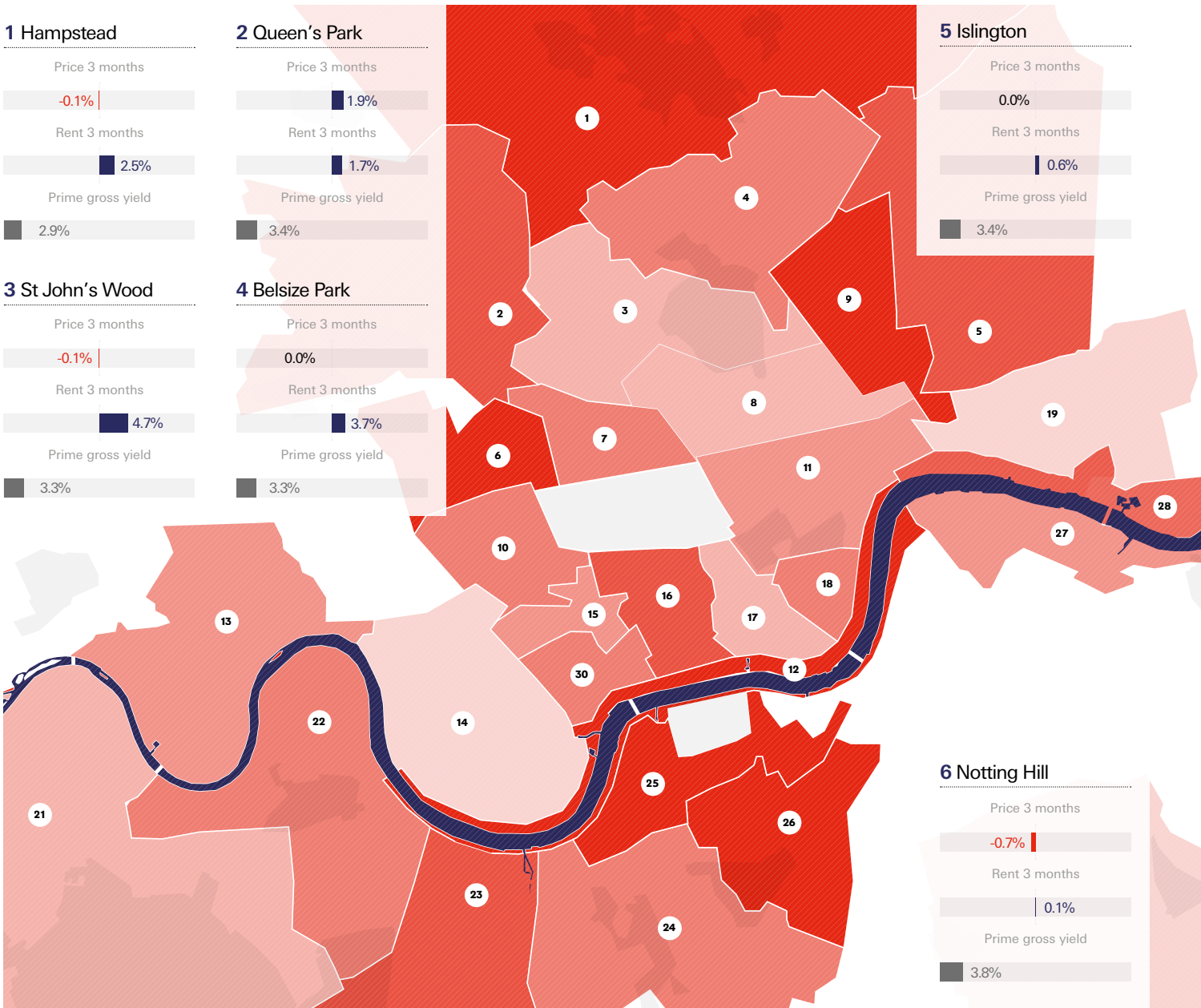
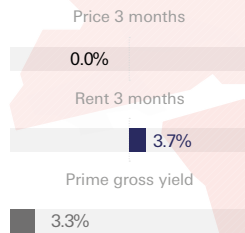
5 Islington



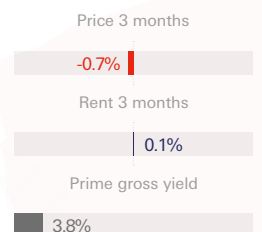
3 St John's Wood



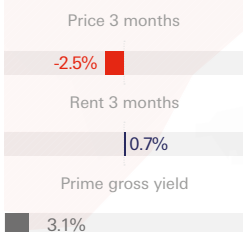
4 Belsize Park



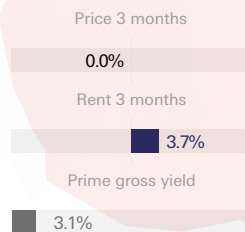
6 Notting Hill



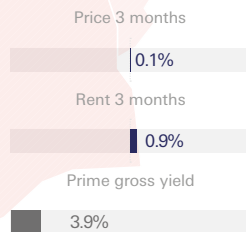
7 Hyde Park



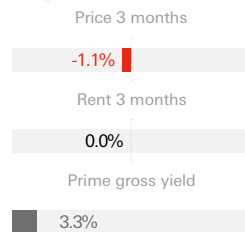
8 Marylebone



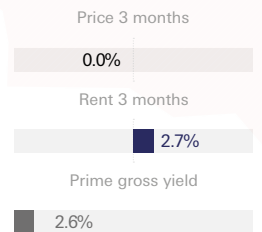
9 King's Cross



10 Kensington

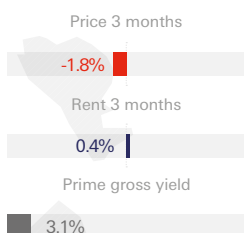


11 Mayfair

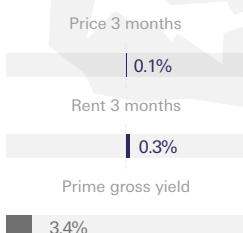


Price 3 months | the change in average prices over the 3 months to June 2018
Rent 3 months | the change in average rents over the 3 months to June 2018
Prime gross yield | the gross yield at June 2018 given average prices and rents

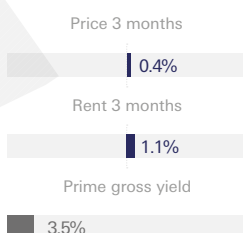
12 Riverside



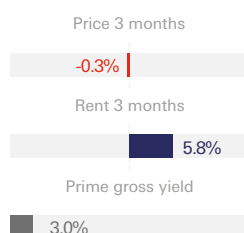
13 Chiswick



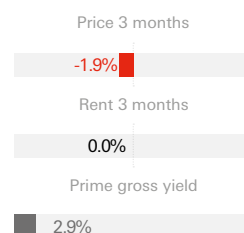
14 Fulham



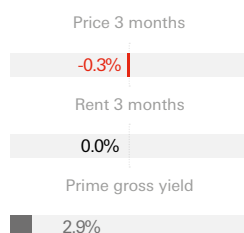
15 South Kensington



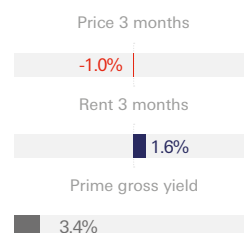
16 Knightsbridge



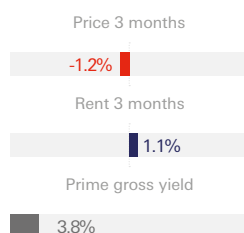
17 Belgravia



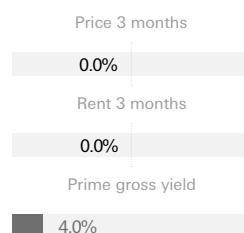
18 Victoria



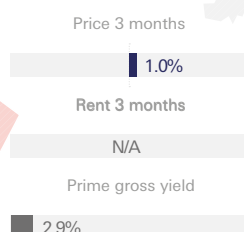
19 City & Aldgate



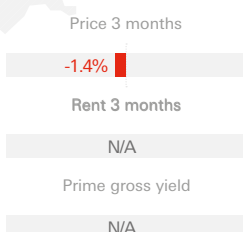
20 Canary Wharf



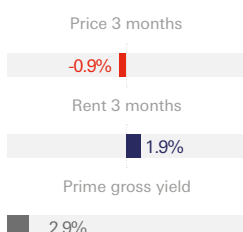
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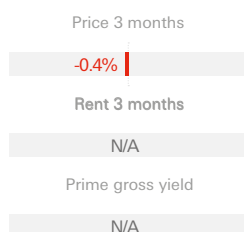
22 Barnes



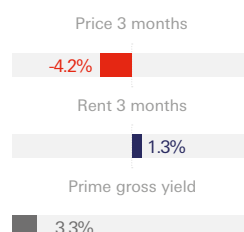
23 Wimbledon



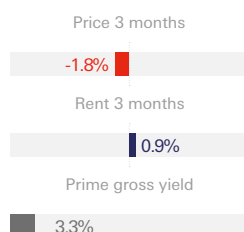
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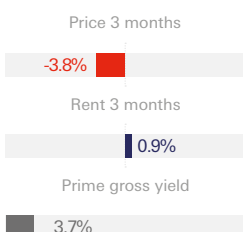
25 Battersea



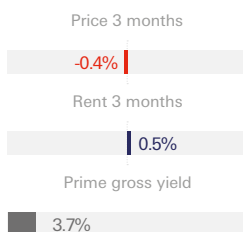
26 Clapham



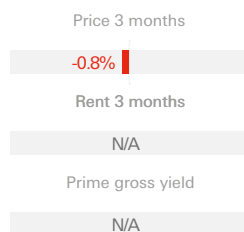
27 Tower Bridge



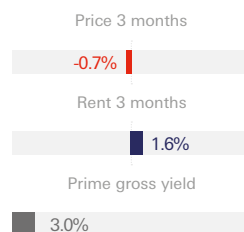
28 Wapping

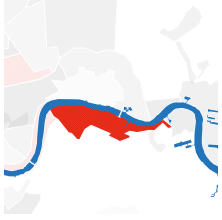


29 Dulwich



30 Chelsea





Tower Bridge

Home to the iconic eponymous landmark, the colourful past of Tower Bridge today intertwines with modern urban living. With an expansive retail and leisure offering, the area has something for everyone – and its properties are no exception. Knight Frank take a look at what makes Tower Bridge such an exciting place to live, work and play.



Tower Bridge has a rich history – exemplified by its world-famous bridge, dating back to 1894 – and a bright future, with contemporary developments and a lively atmosphere energised by the professionals, creative types and tourists that flock there.

Situated on the South Bank of the River Thames, many of the area's hotspots enjoy riverside views, while those in taller buildings can gaze upon London's panoramic skyline, punctuated by the Shard and other major landmarks.

Similarly to the rest of London, exponential growth over recent years has seen property prices here begin to steadily decline, with a plateau now appearing to have been reached. There is excellent value to be found in Tower Bridge by the discerning buyer.

The properties in the area suit various tastes (and budgets), ranging from traditional Georgian townhouses to new residential developments and converted warehouses. The soon-to-be-completed One Blackfriars is one such example of a new world-class development, set to offer exceptional apartments across 50 storeys, complete with outstanding amenities to complement its hotel-style living.

A property in a new development would be likely cost upwards of £2 million, but regeneration further afield in Elephant & Castle has seen some homes

come to the market for less than £500,000.

When it comes to location, Tower Bridge ticks all the boxes. It's in zone 1, with both underground (Jubilee and Northern lines) and overground transport available from the recently extended London Bridge station. Popular locations such as the West End, Green Park and Soho are all accessible within 30 minutes, while the financial hub of Canary Wharf can be reached in less than 10.

Much like its properties, the leisure and retail offering of Tower Bridge is suited to all tastes and desires. In addition to a cluster of converted former warehouses and granaries, it's home to the world-famous Borough Market, Shakespeare's Globe Theatre and the Grade II-listed Hay's Galleria.

New infrastructure has further enhanced the area's urban living, introducing the likes of The Tate Modern and Tom Sellers' Michelin-starred Restaurant Story. Earlier this year, *The Sunday Times* declared Bermondsey the best place to live in London in 2018.

Whether you're looking to have a casual pint with friends in a pub dating back centuries, a memorable fine dining experience, browse independent craft stalls or simply take a moment to admire a world-famous landmark, it's all here in Tower Bridge.



What you could buy for...

£500,000

A one-bedroom property in Elephant & Castle

£1 million

A one-bedroom converted apartment in Shad Thames

£5 million

A three-bed apartment with riverside views in a premium development



Property Snapshot*

In this section, Knight Frank highlights certain characteristics of properties that appear to be driving demand. From Knight Frank's past sales and properties on the market in the past 12 months, it is possible to derive patterns of property characteristics that help readers understand the local market better.

Industry data shows that in the first quarter of 2018, a total of **6,853 new homes** in developments of **20 or more units** were sold in Greater London. According to the Ministry of Housing, Communities & Local Government, over the same time period **3,670 new homes** were completed and construction was started on another **5,290**.

Two bedroom apartments

Two bedroom apartments have been the most popular size over the past year, particularly in Canary Wharf, Fulham and Woolwich. Over a third of these residences come with leisure facilities with the most popular reason for purchase being as a primary residence. To illustrate the popularity, similar apartments to the one listed to the right in Fulham had an average time on market of 79 days, which is significantly lower than other types of properties.



Chelsea Creek

Canary Wharf

Canary Wharf has seen a significant level of activity over the past year with one and two bedroom residences particularly popular. The close proximity to the financial centre and city of London add to the areas appeal. To illustrate, similar apartments to the one listed to the right had an average time on market of 76 days, which is significantly lower than other locations.



Wardian

City and Mayfair

In terms of properties listed in the 12 months to June 2018 the two areas with the largest activity have been City & Aldgate and Mayfair. Two of the most recent developments in these areas include the two to the right which are due for completion in Q3 2018 and Q1 2019.



Lincoln Square

Landmark Place

*The property listed in this section is for reference only. HSBC does not hold a view of the property and is not soliciting, advising or recommending any reader to buy or sell the property. Readers should be aware of changes to the price of the property and exercise proper due diligence before entering into any property transaction.

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