

London | June 2019

RESIDENTIAL MARKET OUTLOOK

Brexit continues to dominate the headlines. Resilient buyers sought to close deals across the capital before the 29 March deadline, others are watching and waiting for a clarity and certainty that, despite the extension, remains elusive.

- Annual price growth across London during Q1 at its lowest level since 2009.
- Price negotiation remains a significant factor of the market, properties across prime Central and Core London selling for an average 11.5% discount on asking price.
- Sales volumes down 4.3% across Prime and Core London on a year ago.
- A supply demand imbalance points to an uplift in rental prices in the coming months, annual rental growth across London its strongest in 16 months.

-1.9%

Annual price growth
London

0.5%

Annual rental growth
London

£1,277

Average £ per square foot
(£psf) achieved prime
Central and Core London

11.5%

Average price discount
prime Central and Core
London

SALES MARKET OVERVIEW

Price falls across prime Central and Core London show tentative signs of easing, although a ripple effect is emerging. Needs-based buyers continue to transact, realism and pragmatism are critical in closing a deal.

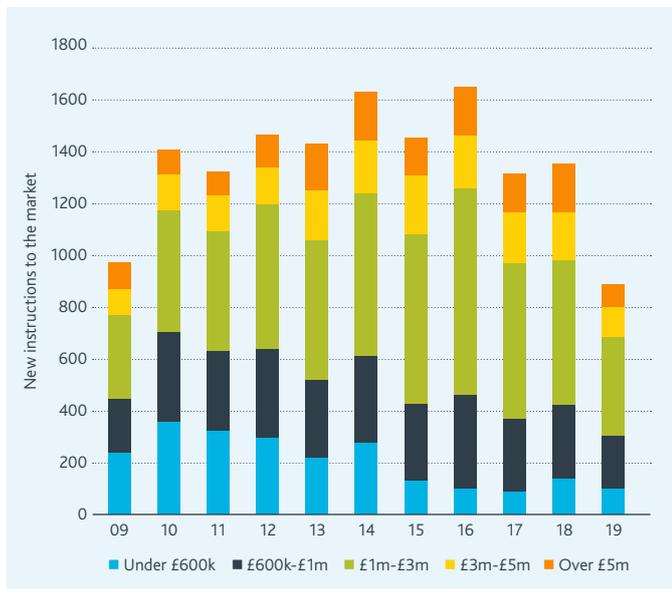
Price Growth – Quarter v Quarter Source: Cluttons, UKHPI



Average values across both prime Central and Core London are over 8% lower than the year previously, however quarterly price drops have eased compared to final quarter of 2018. In the run up to Brexit, supply remained tight as potential vendors stayed away.

- New supply to the market during the first quarter at its lowest level in a decade, 35% lower than the level experienced in the same period last year, and 40% lower than the five-year average.
- Although remaining low, sales volumes across prime Central London remained stable, down just 0.9%, while in Core London volumes fell by 10.2%.
- Core market continues to perform with a 5.1% increase in £1-£3 million sales across prime Central London compared to last year, however prime market sales (+£10 million) have stalled.

New supply across prime Central London at lowest level in over a decade



Source: dataloft, LonRes, instructions Q1 each year

Price Growth – Per Annum Source: Cluttons, UKHPI



Although sterling made tentative gains during the first quarter of 2019, overseas investors continue to benefit from significant currency advantages. Sterling is currently trading lower, against both the Euro and the US\$, than its immediate post referendum low (21 May 2019 v 6 July 2016).

Although supply is limited, for those in the market there are deals to be done

Stamp duty receipts fall

Income to the Treasury from Stamp Duty Land Tax (SDLT) receipts fell by £1bn in the financial year 2018/19 compared to 2017/2018. Residential tax receipts were down 26% in Q1 2019 compared to the final quarter of 2018, over a thousand fewer sales of £1 million plus properties having taken place.

Quarterly price falls ease in Q1 2019

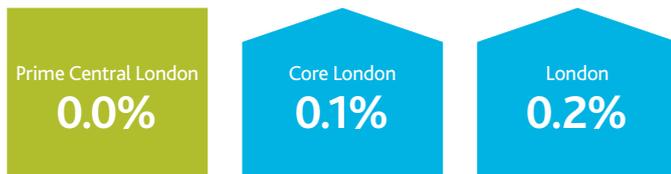


Source: dataloft, Cluttons

RENTAL MARKET OVERVIEW

After a period of stagnating rental prices, a supply-demand imbalance points to an uplift in rental prices in the coming months, while prime-lettings activity continues apace.

Rental Growth – Quarter v Quarter Source: Cluttons, UKHPI



Rental Growth – Per Annum Source: Cluttons, UKHPI



Prospective vendors and purchasers continue to hedge their bets, especially at the upper end of the market. Levels of rental instructions for prime properties (+£5,000 per week) across prime Central London increased 37% during Q1 2019 compared to a year ago, while the number of prime properties let doubled. The cost of renting at £5,000 per week for over a year is equivalent to the cost of stamp duty on the purchase of an average priced prime Central London property (£2.6 million) used as a second home.

Prime rental activity looks set to remain buoyant until there is more clarity in the sales market

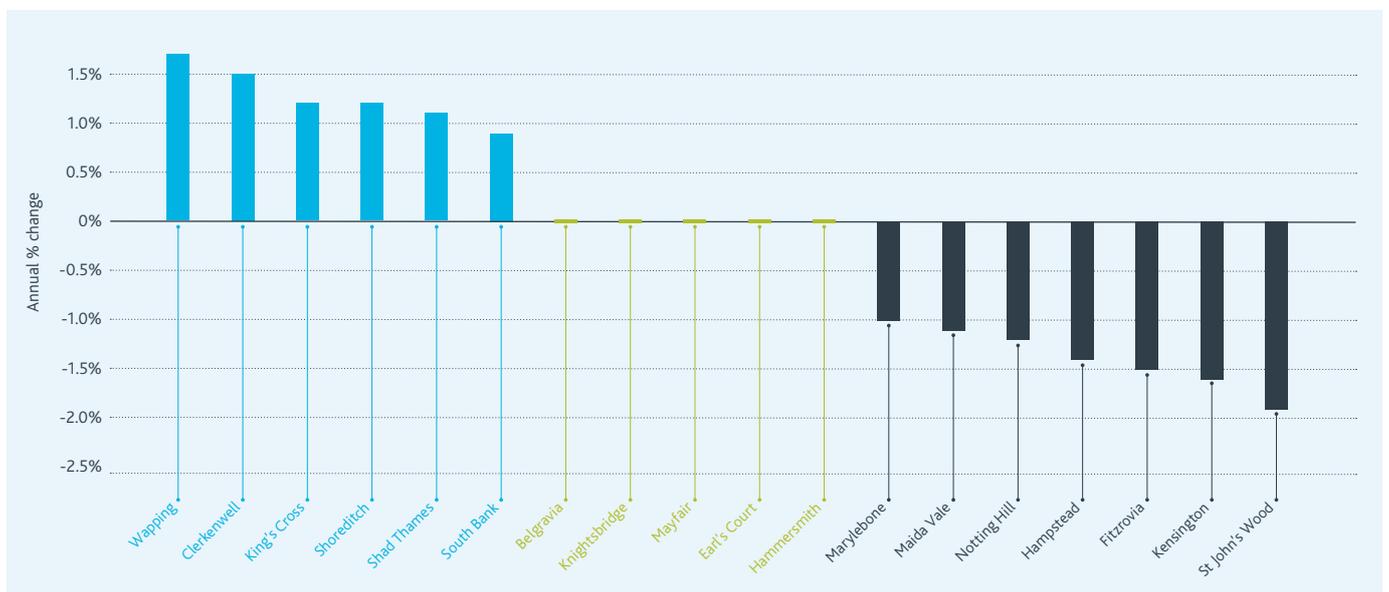
Traditional markets and the new trend setters

Over one million households in the capital privately rent, with predictions that levels of private renting will equal home ownership

by 2025. In the past year rental values across prime Central London have proved most stable within established residential districts, while some hotspots in the wider Core London have seen value growth significantly outpace averages.

- Averaging £1,100 per week for an apartment and £2,600-£3,000 per week for a house, rental values across Mayfair, Knightsbridge and Belgravia remain stable.
- With rental growth just over of 1.2%, King’s Cross, Wapping, Clerkenwell and Shoreditch are the current market leaders in Core London.
- Rental properties achieve within 4% of their initial asking price across prime Central London and 6% across Core London.

Mixed fortunes of London’s rental market



Source: dataloft, Cluttons

WATERSIDE LIVING – A PRICE WORTH PAYING

For many Londoners, there is something uniquely appealing about living close to a waterfront¹. Whether next to the River Thames, docks, wharfs or canals, such property, both north and south of the Thames, commands a significant price premium.

One in every fifteen properties sold across London during 2018 was situated within 100 metres of waterside and, at just over £270,000, the price premium for living in such property equates to virtually half the average price of a property in the capital. On average properties close to the waterside sell for just over £805,000 compared to £536,000 for property further away.

Despite uncertainty in the capital's housing market, the premium for waterside properties has strengthened. Indeed, the average price of a property by the waterside in London has increased by 23% over the past five years, compared to less than a 20% rise in other locations.

- **A river runs through** – Over 85% of waterside properties sold in London during 2018 were within 100m of the River Thames.
- **In the sightline** – Just one in ten waterside properties are located within London's protected vistas. Such properties, on average, sell for twice the price of those that are not.
- **A North South divide** – The price differential for living close to the River Thames on the south of the river is considerably higher than the corresponding premium on the north.

Whether on the north or south Thames riverfront, there is a significant price premium associated with waterside living. Properties within London's protected vistas attract an additional price premium

¹ apartments sold <100m away from the waterside, compared to sales outside this parameter. Waterside locations include River Thames, Paddington Basin, Little Venice, St. Katharine Docks, Chelsea Harbour, Regent's Canal, Millwall Docks, Canary Wharf Docks, Shadwell Basin, Limehouse Basin and the Royal Docks.

£ Average property price P Premium ↑ Premium %

ALL WATERSIDE ¹
(within 100m of any water)

£ £805,885 P £270,275
↑ 50%

NORTH WATERSIDE
(within 100m of any water)

£ £741,090 P £205,480
↑ 38%

WATERSIDE WITH VISTA
(protected views)

£ £1.6 million P £892,676
↑ 124%

OVERALL THAMES RIVERFRONT

£ £834,797 P £299,187
↑ 56%

NORTH THAMES RIVERFRONT

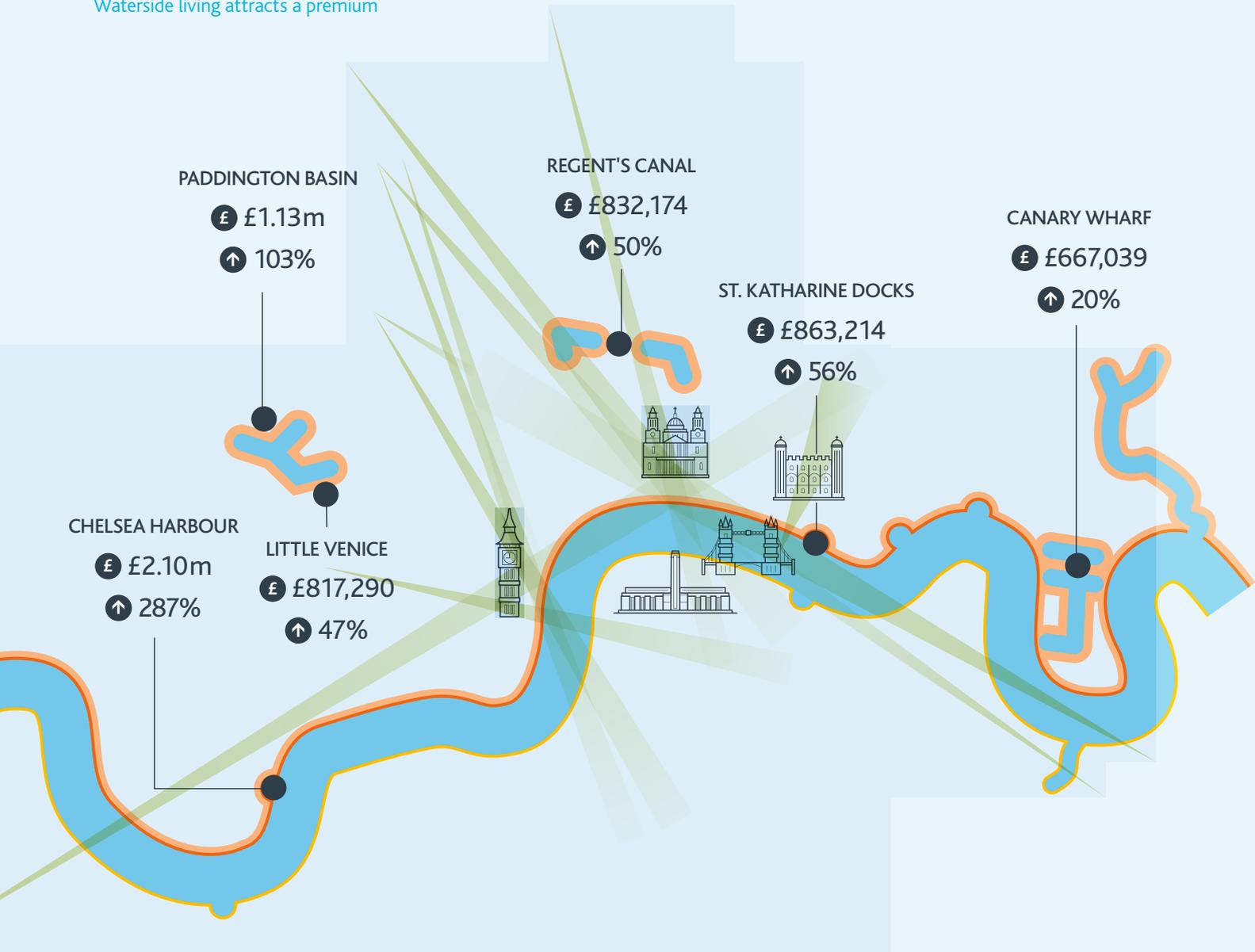
£ £774,490 P £171,737
↑ 28%

SOUTH THAMES RIVERFRONT

£ £906,634 P £472,775
↑ 109%

Average non waterside property £536,000. Premiums for North and South Thames Riverfront based on the average price of non waterside property on the north and south respectively.

Waterside living attracts a premium



The ebb and flow of price premium for waterside living



RIVERSIDE PREMIUMS



“The redevelopment and revitalisation of much of the Thames riverfront over the past 35 years has created a wealth of opportunity for a new generation to experience waterside living. Riverside walks and eateries amid stunning residential development on both the north and south banks creating a new vibe across the capital.”

James Hyman, head of residential

A river runs through

Many of the world’s great cities are built on the banks of rivers, and London is no exception. The distinctive curves of the River Thames are as much a London landmark as any of the city’s iconic structures. Entwined in its history and its modern future, the River is at the heart of the capital’s waterside living culture. The premium to live within 100 metres of the Thames is close to £300,000, a premium that has ebbed and flowed as with a rising tide over the past five years, up from 37% in 2017 to 50% in 2018.

Room with a view

The London Plan includes specific reference to a series of protected London vistas. These vistas incorporate the three strategically important landmarks of St Paul’s Cathedral, the Palace of Westminster and the Tower of London.

- Properties sold within a protected vista on average attract a £200,000 premium compared to those that are not, irrespective of whether they have a waterside location.
- Average prices of waterside properties within London’s designated protected vistas have exceeded £1 million since 2014, prices in 2018 were just over £1.6 million.
- The Palace of Westminster attracts the highest price premium of the three landmarks.

The north versus the south riverside

The price premium for living on the riverside is significantly higher on the south riverfront than the north. Prices here too have witnessed more rapid growth. The average price of a property on the south riverfront has increased by 31% since 2014, compared to 23% on the north. The price of new build property has witnessed even greater growth, breaching the £1 million threshold on the south riverfront in 2018, up more than 40% since 2014.

A suite of initiatives including the Northern Line extension, Nine Elms and Pimlico Bridge and the proposed construction of the Diamond Jubilee Bridge, undoubtedly contribute to property market performance across the south riverbank. Connectivity and accessibility to the heart of the capital are set to rival that of locations on the north riverbank.

As areas of the south riverbank rival their northern counterparts on price, connectivity and accessibility, London is witnessing the emergence of a new prime residential enclave

Top five locations for riverside price growth, 2014-2018 (average price 2018)



FORECASTS

Sales

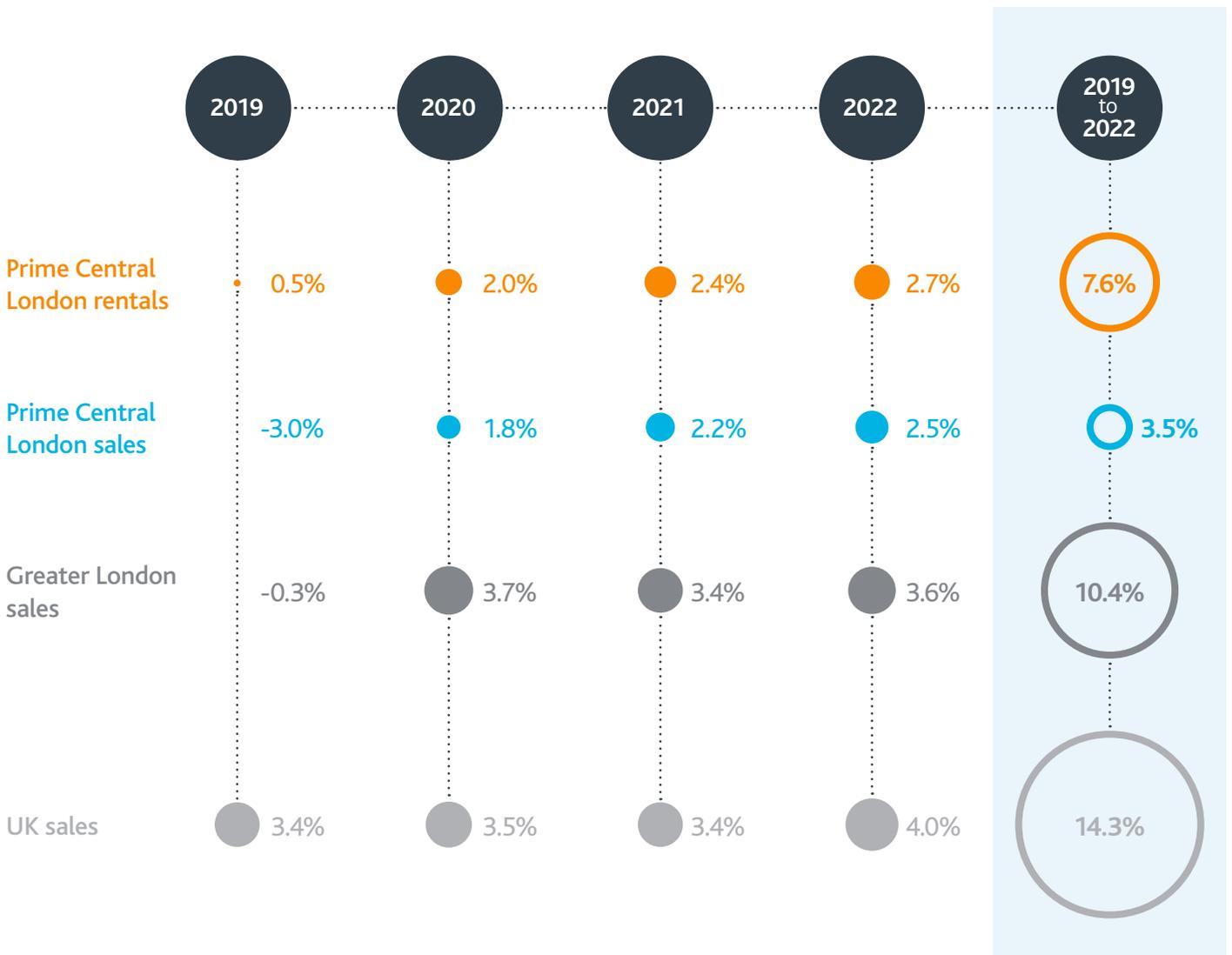
Although economic indicators remain broadly positive, the ever-shifting political landscape and affordability concerns cause hesitancy. Stock levels are at record lows while prospective purchasers watch and wait.

While the Bank of England now expects UK house prices to fall by 1.25% over 2019, we are confident price growth across the UK will remain in positive territory. Across Central London we anticipate a 3% fall in values over the course of the year but expect confidence to return once the uncertainty recedes. Except for 2019, we expect London to outperform the UK during 2020-2022.

Rental

Following a period of limited movement, prices across London's rental market are rising at their strongest level in 16 months (ONS). Demand currently exceeds supply and while the introduction of the tenant fee ban will provide reassurance to many tenants, there are concerns that landlords may face pressure to raise rents to absorb additional agent costs.

We anticipate rental price growth will outperform sales across Central London in each of the next four years, with growth of 0.5% predicted for 2019 and cumulative growth of 7.6%.



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Prime Central London: Belgravia, Chelsea, Covent Garden/Soho, Holland Park, Hyde Park, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Regent's Park, South Kensington, St James's, St John's Wood, Westminster

Core London: Canary Wharf, Clerkenwell, Earl's Court, Farringdon, Fitzrovia, Fulham, Hammersmith, Hampstead, Highbury, Islington, King's Cross, Maida Vale, Shad Thames, Shoreditch, South Bank, The City, Wapping

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June 2019

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Date of publication: June 2019

Analysis, editorial, design, graphics and charts by Dataloft.

Photography: Cluttons