REPORT

Savills Research

IN FOCUS:

PRIME CENTRAL LONDON

UK RESIDENTIAL – AUTUMN 2024

savills

A DECADE OF ADAPTATION

WORDS BY LIZA-JANE KELLY
Head of London Residential

London is one of the most sought-after cities in the world, and its prime housing market has always been attractive to international buyers. But over the last decade, we've seen several challenges – including the pandemic, political uncertainty and changes to tax regulations. Through it all, London remains a place that people want to buy, live and invest in.

Prime central London's culture, classic architecture, world-class schools and beautiful green spaces continue to make it one of the most desirable places to live.

Whatever tax changes we see in the coming months, the fundamental cultural and physical characteristics that make central London so unique will endure. Pockets of London, including Belgravia and Knightsbridge, have had significant investment, bringing more high-end retailers and luxury apartments to the area. So whether you're looking to buy or rent, there are plenty of exceptional properties available.

In our fifth edition of '*In Focus: Prime Central London*', you'll find the very latest insights from our industry-leading experts. Our research team that takes a detailed look at what the experience of past 10 years, tell us about what the future may hold, with a focus on potential changes in the tax treatment of non-doms.

Meanwhile, our agents look at what this has meant on the ground. So, whenever you do feel ready to make a move, you can be assured that experienced agents will be here to support you on your journey with dedicated guidance, local insight and honest advice.

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PAINTING A PICTURE
OF CENTRAL LONDON

WORDS BY LUCIAN COOK
Head of Residential Research

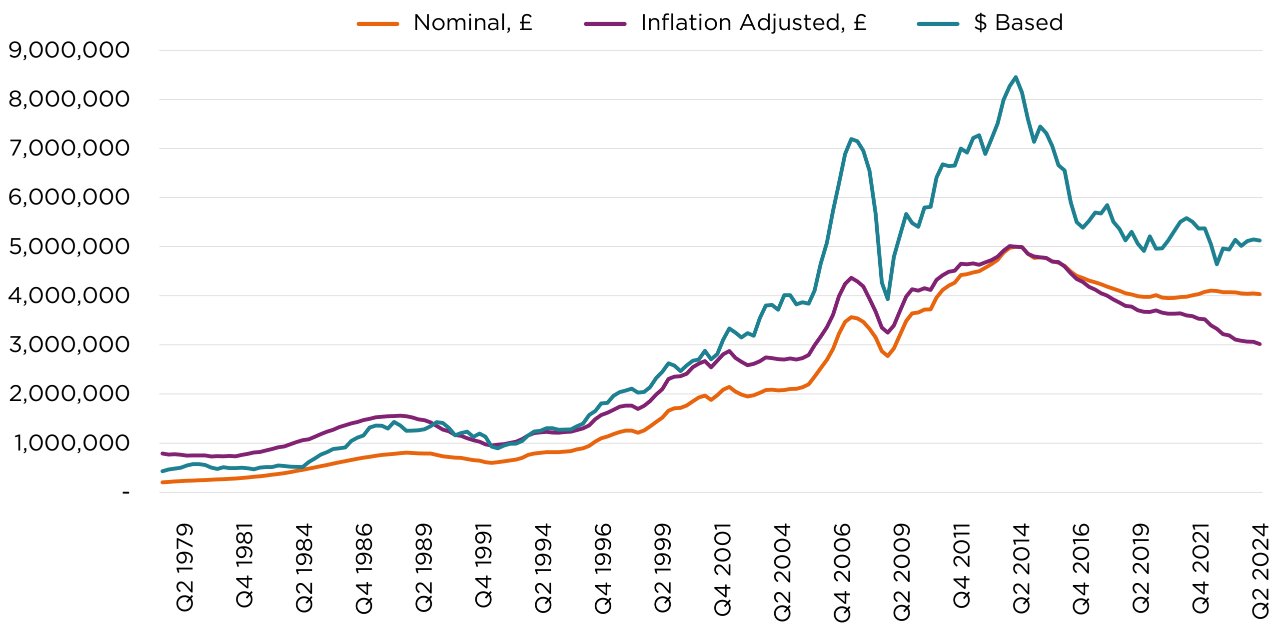
In June 2014 when the value of prime homes in central London hit its peak, one of Claude Monet's Water Lilies compositions sold at auction in London for £31.7 million.

One of the 250 oil paintings depicting the flower garden at his home in Giverny, it was reportedly the second-highest price paid for his work at auction, at the time.

In November last year, a separate piece from the same series sold for $74 million in New York, equivalent to just over £60 million.

Not too long ago, that level of price appreciation was not uncommon in the prime housing markets of central London. But not so for the past decade.

PCL PROPERTY WORTH £5M IN 2014



Source: Savills Research

PCL VALUES VS JUNE 2014

-19%	-40%	-39%
in nominal terms	in real terms	in US$ terms

A DECADE OF DISRUPTION

It is now almost 10 years since George Osborne opened his red despatch-box and announced an overhaul of stamp duty, bringing with it a tax increase at the top end of the market, which prime central London could no longer absorb.

Since then, we have seen Brexit and a corresponding wave of political uncertainty. We have seen a progressive tightening of the tax net around wealthy global citizens who have chosen to make the streets of central London their primary place of residence.

We have also seen a global pandemic, increased scrutiny of buyers' sources of wealth, a recent bout of economic turbulence and an array of highly targeted surcharges and levies aimed at extracting more from ultra-high-net-worth individuals with a UK presence.

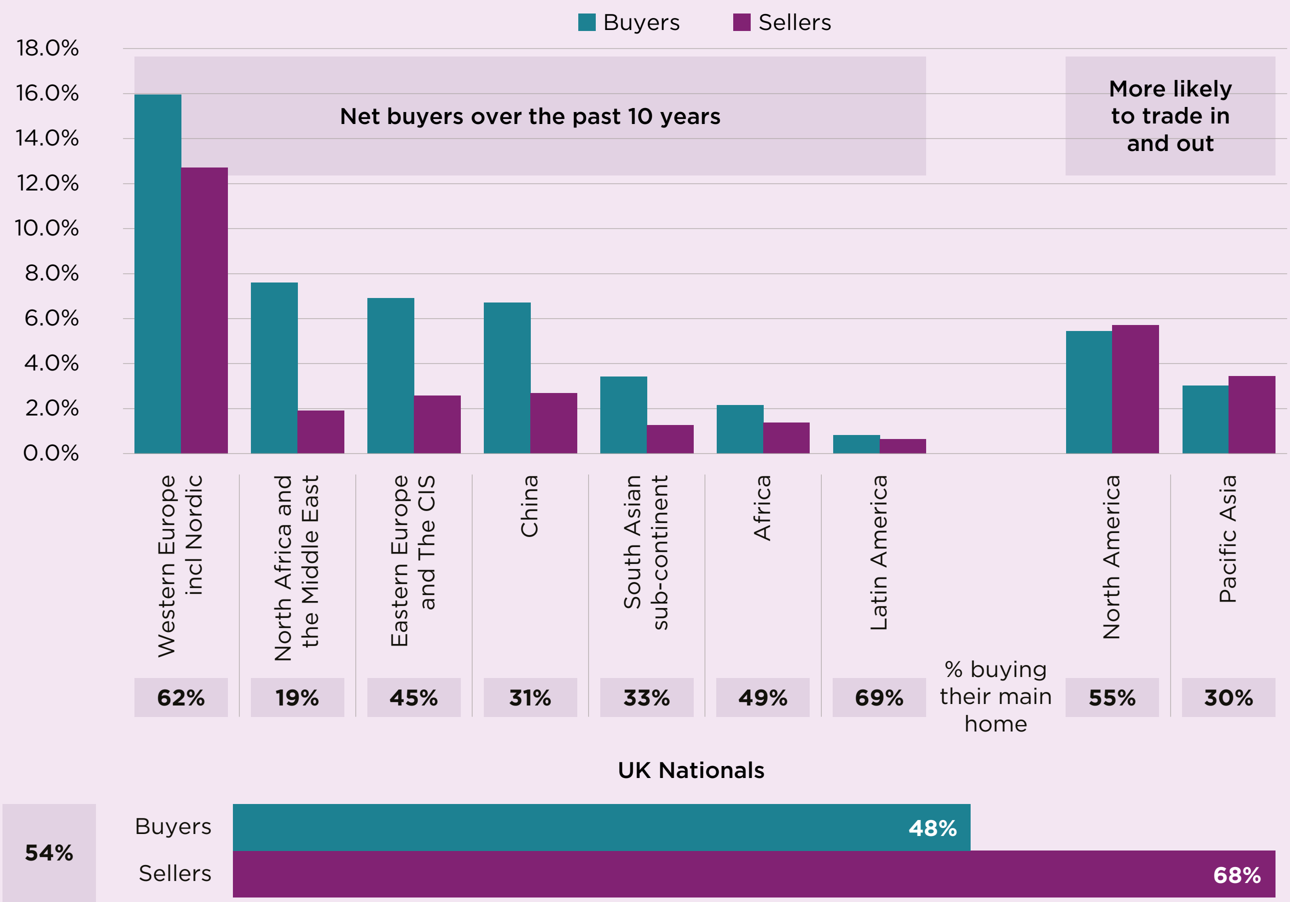
None of these have treated the housing markets of prime central London particularly kindly. But while it hasn't thrived in the manner to which it had become accustomed, it has more than survived.

SURVIVAL INSTINCTS

Indeed over the past 10 years, there have been more than 4,200 sales of properties worth £5 million or more across London, totalling £46.4 billion in spend. To put this into context, that sum would have bought over 40% of all of the £1 million+ pieces of art sold at public auction around the globe over the past decade.

While the urgency to transact has ebbed and flowed, throughout this period we have consistently seen international buyers outweigh international sellers across central London.

BUYER AND SELLER PROFILES OVER THE PAST DECADE



Source: Savills Research

REASONS FOR RESILIENCE

This continued buying activity has also reflected the fact that prime central London has looked poised for recovery many times over the past decade. And over the past five years, during which time prices have changed very little, prime central London property has looked particularly "good value" relative to its peers.

Indeed, our prime house price index shows that values across central London remain -19% below their 2014 peak in nominal terms, -40% below on an inflation-adjusted basis, and -39% below for a US dollar buyer.

This for a city with 16% more ultra-high net worths (those with assets of over $30 million) than its next nearest competitor in Europe, according to Altrata and Wealth-X, with Paris taking second place. And for a city which has fought hard to retain its second place ranking behind New York as a leading global financial centre, according to Z/Yen's long-standing index, holding off competition from pretenders to the European crown, such as Geneva and Frankfurt.

EXERCISING DISCRETION

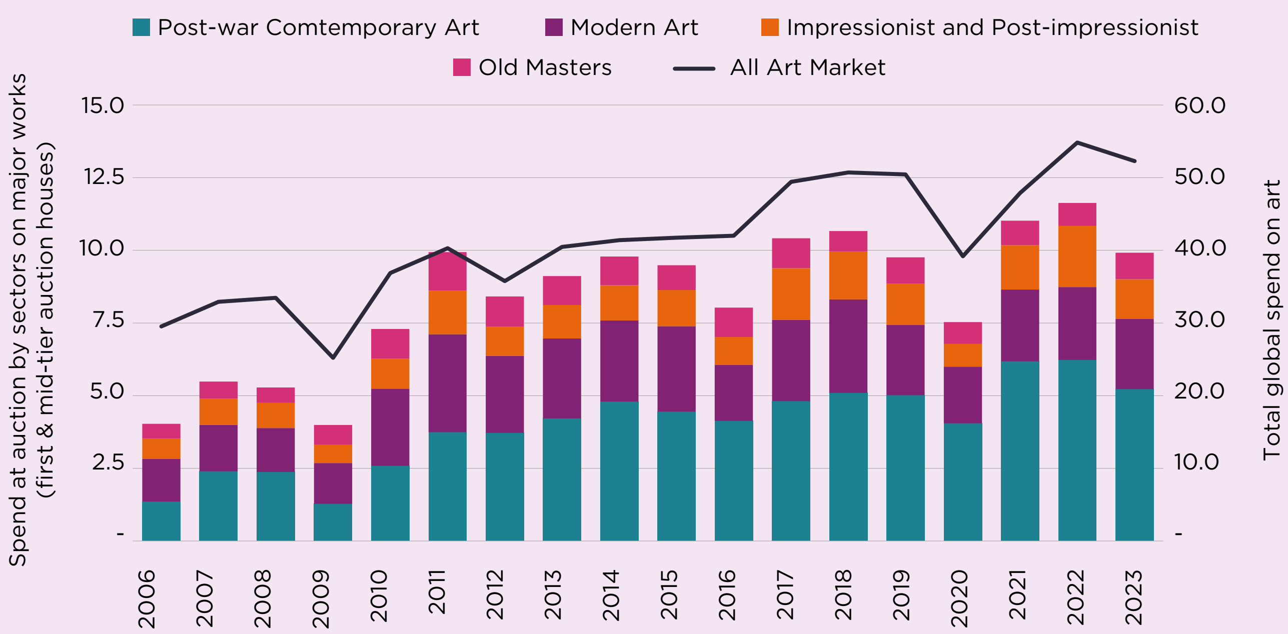
In the art world, levels of spend fluctuate from year to year, as does which genres are in vogue.

Whereas purchases of fine art are highly discretionary, acquisitions of central London real estate are made for an array of reasons; as a main home, as a base in London and as an investment.

Of course, there is an element of discretion as to where the ultra-high net worth community base themselves and choose to spend their time. Those decisions are typically influenced by an intricate web of cultural, climate, economic, educational, political and fiscal factors.

And, in the context of central London, it is the last of these factors – the prevailing tax environment – which weighs on the minds of a certain class of owner and potential buyer; the 'non-doms', those who have residence in the UK but whose permanent home is outside of the UK.

GLOBAL SPENDING ON ART £BN



Source: The Art Basel and UBS Art Market Report

"NON-DOMS" MANOEUVRES

In the run-up to the recent general election, their tax status became a topic of great political discussion. The Labour Party had long held well-publicised ambitions to bring them, their global earnings and global wealth, fully within the ambit of the UK tax system. But few expected the Conservative Party to bring forward the similar, if slightly more nuanced, proposals that found their way into their spring budget in early March.

And so it truly became a question of when, not if, changes would come. No surprise then, that Labour, now in power, included the abolition of non-dom status as a manifesto pledge.

A GAME OF WAIT-AND-SEE

Accordingly, we have found ourselves in a period where those affected have started to weigh up their options, waiting to see what comes forward in the new Chancellor of the Exchequer, Rachel Reeves', first budget.

Given that the majority of owners and potential buyers will be unaffected by the changes, the extent to which long-time UK resident "non-doms" have already seen their tax benefits diminished and the range of other reasons to keep a foothold in central London, we have not yet seen, nor are likely to see, a flood of stock hit the market.

In the period between March and June this year, there were 15% fewer sales over £5 million across London than a year previous; an understandable reaction to the uncertainty overhanging parts of the market, and they remain well above (+38%) pre-pandemic levels. Prices, already looking good value, moved very little, easing back by less than half a percent on average.

LESSONS IN MODERN HISTORY

Of course, until we see exactly what comes forward from the new government, it is difficult to predict exactly what the future impact may be. But in terms of downside risks, it is again worth looking back at what has happened at various points over the past 10 years.

In that respect, the two biggest adjustments in value were seen in the immediate aftermath of George Osborne's reform of stamp duty (at the end of 2014) and the vote to leave the EU (in mid-2016). In the 12 months that followed those two events, prices fell back by -4.5% and -6.6%, respectively. Were the same to occur – something that is far from guaranteed – the value on offer to buyers from across the domestic and international spectrum would be compelling.

GETTING BEHIND THE 'NON-DOMS' NUMBERS

The term 'non-doms' describes a subset of those non-UK domiciled individuals who pay tax in the UK.

Generally, those who have assumed the moniker of 'non-doms' are resident in the UK in any given tax year and have the ability to only be taxed on their non-UK income and capital gains, to the extent it is brought (or remitted) to the UK.

Data from His Majesty's Revenue and Customs (HMRC) tells us that 68,900 non-domiciled individuals paid tax in the UK in the 2021-2022 tax year, generating £8.48 billion in income tax, national insurance and capital gains tax. However, not all of these would be materially affected by the abolition of non-dom tax status.

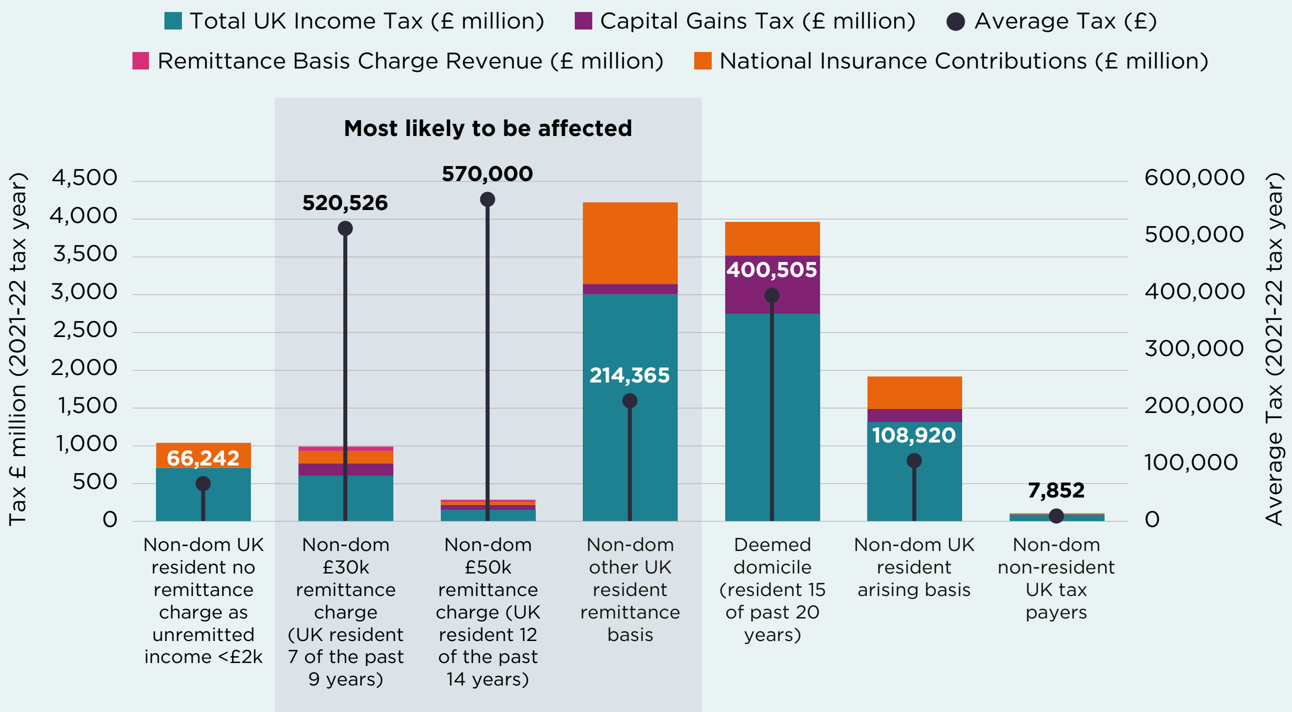
To start with, 13,500 of these non-domiciled taxpayers were non-resident in the UK, paying relatively small amounts of UK tax on their UK income (an average of under £8,000 per year). They fall outside what we would normally call the classic "non-doms".

In addition, there were 15,700 individuals resident in the UK whose level of overseas income not remitted to the UK was less than £2,000. Unlikely then that these would be exposed to a significantly increased tax bill on the abolition of non-dom status.

Then there were a further 17,600 UK resident "non-doms", who are already taxed on worldwide income and capital gains on an arising basis, irrespective of whether they remit that income to the UK. These taxpayers have decided not to elect to use the remittance basis. On average, they pay £99,000 in income tax and national insurance and a further, relatively modest, £10,000 in capital gains tax.

That leaves us with 22,100 "non-doms" who are more likely to be exposed to the proposed changes.

WHO WOULD BE AFFECTED BY A CHANGE IN "NON-DOMS" TAXATION



Source: Savills Research using HMRC

The bulk, some 19,700, used the remittance basis without charge. Their average tax bill was over £214,000. This is likely to have varied significantly across the group, making it difficult to determine exactly how many are likely to be meaningfully affected by the abolition of "non-doms" status.

That leaves 2,400 who have elected to pay the so-called 'non-dom levy' to retain their ability to use the remittance basis of taxation. That levy varies between £30,000 per annum, for those resident in the UK for seven of the past nine years, and £50,000 per annum, for those who have been resident for twelve of the past fourteen years. Those who have chosen to do this are typically very wealthy, their average tax bill of £531,000 already including an average capital gains tax bill of £93,000. That indicates the abolition of the remittance basis will have a material impact on their personal finances, albeit they are low in number.

It is also worth noting that outside of these numbers, there were some 9,900 individuals who, by virtue of changes made in 2017, are deemed to be domiciled in the UK because they have resided here for 15 out of the last 20 years. As such, they are already liable to the full gamut of UK income tax, capital gains tax and inheritance tax on their worldwide income. Notably, their average income, national insurance and capital gains tax bill is a little over £400,000, though importantly their numbers have changed relatively little since 2018.

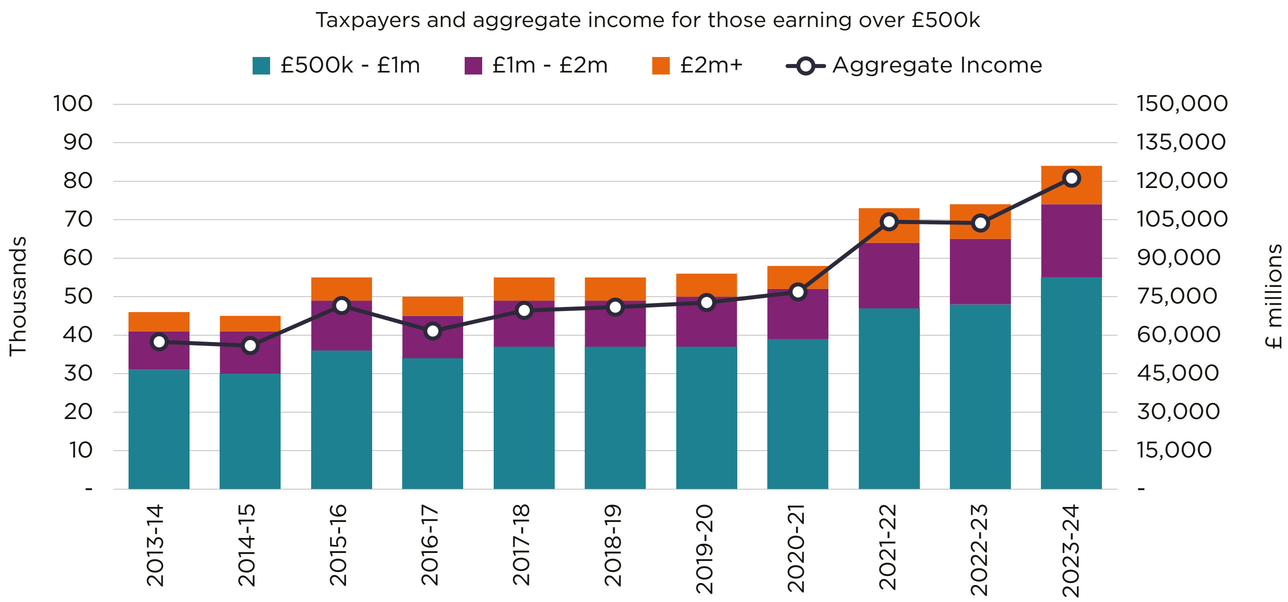
And so, in March 2024, the Office for Budget Responsibility (OBR) estimated that only 5,500 non-doms would be affected by the last government's proposed tax changes. How that changes under a new government depends on how much further they tighten the tax net. But, as recent research from Oxford Economics points out, too much tightening risks eroding rather than growing tax revenues should it cause too many non-doms to relocate.

WHAT'S HAPPENED TO HIGH EARNING UK TAXPAYERS?

To put these numbers into context, it is also worth looking at what has happened to the number of high income tax payers in the UK. Data from HMRC suggests across the UK there were 395,000 tax payers with an income of over £200,000, of which some 84,000 had an income exceeding £500,000.

And those earning over £500,000 have risen in number by 83% in 10 years, off the back of a 44% increase since the 2020-21 tax year. Furthermore, their aggregate income of some £121 billion has more than doubled in the past 10 years, providing a timely reminder of the extent of domestic wealth within the UK.

HIGH EARNERS ACROSS THE UK



Source: Savills Research using HMRC

OVER 3 YEARS		OVER 10 YEARS	
+45% Taxpayers	+58% Income	+83% Taxpayers	+111% Income

LOCAL AREAS

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

MAYFAIR

The best addresses are still generating record prices

Mayfair's sales and lettings markets have remained resilient, despite uncertainty over the changes to "non-doms" status and taxation, forecast to come in the Autumn Statement.

Properties at the best addresses are going for record prices per square foot – homes on Grosvenor Square, Mount Street and Charles Street can still whip up a frenzy. Buyer demand is coming from across the globe, including India, the US and Europe.

There remains a lack of best-in-class stock between £5 million and £10 million, intensifying the supply-demand imbalance in this price bracket.

The busiest part of the sales market currently is the lower end (between £1 million and £5 million) in areas such as Shepherd Market, as buyers seek out a bolthole in central London. This is currently accounting for 50 per cent of sales.

The Grosvenor Estate is working hard to curate the luxury retail offering, while quirky hospitality spaces arrive too, such as the wine bar at Farm Shop Mayfair on South Audley Street, which opened in January, or Abajo, the Colombian offering underneath Michelin-starred HUMO. KOYN Thai opened on Grosvenor Street this summer and Akira Back took up residency in the Mandarin Oriental Mayfair.

In terms of new developments, Phones 4u founder, John Caudwell is building what is set to be the world's most expensive residential-only scheme. 1 Mayfair will attract the world's elite when they go on sale.

Commercial property developments are feeding into the market too, with the construction of Blackstone's 226,000 sq ft European headquarters underway on Berkeley Square, extending Mayfair's status as an international finance hub, and bringing with it more demand in sales and lettings.

After strong performance last year, it is encouraging to see continued rental growth in the market. Transactions are up year on year, more deals are being done off the market than ever before as people feel their way through 2024 and often opt to 'try before they buy.'

The average tenancy is getting longer as tenants look for stability and renewals have gone up too. This suggests a more stable market, despite the high levels of activity. Transaction numbers are higher than last year, but as tenants start to shop around a little, this is suppressing rent rises.

These landlords – some accidental – do not necessarily need to rent their home out. If they don't get the rental price they want, they won't fill the property. This is leading to a tricky market. Patience and diligence are needed to put together a deal.

Our sales and lettings teams are collaborating more than ever to help our landlords and sellers determine value on both ends.

JASPER JEVONS
Sales

KATIE HEFFERNAN
Lettings

KNIGHTSBRIDGE, SLOANE STREET AND BELGRAVIA

Belgravia back in the spotlight

The Belgravia of 15 to 20 years ago is almost unrecognisable now. It was a quiet residential patch in the heart of central London, the stomping ground of politicians and cluttered with international embassies. Arguably, it had a strong sense of history rather than a strong sense of place.

Following significant improvements in the streetscape, public realm and amenities, an increasing number of tenants and homebuyers are now specifying Belgravia as where they want to live. That has been one of the key traits of 2024.

Much has changed. Pavilion Road, for example, was a narrow mews street behind Sloane Street with a collection of small homes that had become a place to park cars. It has been reimagined as a high street over the last few years and is now a destination street with handpicked boutique retailers behind restored facades. The upgrades to Elizabeth Street and Motcomb Street mean that residents now want to grab a coffee and shop on their doorstep in Belgravia rather than head off to Chelsea's King's Road.

Other pockets benefitting from a carefully curated upgrade include Knightsbridge itself. The shopping experience has been spruced up. The pavements have been widened, creating a clean flow from the tube to the stores.

Key retailers have been placed in prominent positions. The new Apple store is more demonstration space than shop and a new Burberry flagship store has helped put Knightsbridge back on the map for shoppers. Above street level is a suite of luxurious apartments, delivered by Knightsbridge Estate, redeveloped and considered to be London's most exclusive build-to-rent proposition.

This wave of change is sweeping down Sloane Street. The £46 million upgrade was announced in 2019 but delayed due to the pandemic. Currently in the throes of construction, when completed the pavements will have been broadened and planted with pocket forests, to create a green, low-carbon boulevard that runs down to Sloane Square. The brands have responded accordingly: Christian Dior and Louis Vuitton have upsized their stores. This should follow through to Sloane Square making way for a more cosmopolitan cafe culture with tables spilling out onto the pavements.

The early election has led to a busy summer in Belgravia's collection of charming urban enclaves which run from Chelsea Barracks to The Goring and up to Knightsbridge. The area has a real bustle about it with strong demand from Middle Eastern buyers and the return of the lateral homes market.

Lettings is coming off the back of a prolonged purple match in the wake of the pandemic. Once international travel opened back up, demand and rents went wild. It was a once-in-a-generation market. The hype has now dissipated, rent rises are nominal and tenants are more prudent. The market has moved on.

Despite this, and compared to pre-Covid times, lettings is still in a very good place. Demand for flats over houses is back (in both sales and lettings) with the lower prime end the most active. A good quality one-bedroom flat will get three offers by the end of launch day. The corporate ex-pat market (those being relocated back by their companies) is busy, as is the diplomatic market and we await the return of the students.

RICHARD GUTTERIDGE

Sales

GEORGINA BARTLETT

Lettings

ST JOHN'S WOOD

New developments have brought a polish to St John's Wood

Last year, the sales market in St John's Wood was strong on all fronts, from £5 million to £20 million, and peppered with noteworthy house sales in the £40 million to £60 million bracket. International and domestic buyers were all pounding the pavements.

2024 has been different. In January, there was a backlog of deals being processed, but then it went quiet above £20 million until after the election. Top-end buyers have been concerned about the cost implications of a change in the "non-doms" policy by Labour and shaken by the procession of elections around the world – from Taiwan to Pakistan to, of course, the US election yet to come in November. This all fed into a pervasive sense of unease.

In July however, the sales market kicked off again as the decisive Labour win gave vendors and buyers confidence. People were bored of waiting and the same old drivers harried them to transact in St John's Wood: the schools, the proximity to vast green space (Hampstead Heath, for example) and fear of pollution in more central spots. There is also a view that this part of north west London is less transient with a more settled, full-time community. This pulls families to the area.

More stock will come with the development of St John's Wood Square, the transformation of the former Royal Horse Artillery headquarters. This Grade II listed building and five-acre site, between St John's Wood underground station and Primrose Hill will deliver 179 new luxury three and four-bedroom homes to the area. This is likely to appeal to families and investors, given strict regulations set by Westminster Council that make it complicated for developers to knock through and create palatial lateral apartments.

Other boutique developments are bringing a polish to the area not seen previously. One St John's Wood comprises 98 luxury homes overlooking Lord's, while a new airspace project delivered four penthouses (Lord's View One) with views right into the home of cricket.

Last year was the best year ever for the lettings team in St John's Wood, by all metrics, driven by the family house market. Therefore by comparison, demand has naturally softened.

Landlords are learning in this market to present modernised accommodation. There are some who are taking their properties off the market to upgrade them, installing air source heat pumps, new bathrooms and

kitchens or redecorating. When they launch them back onto the market, they are achieving 20 to 30 per cent more in rent. Although the market is price sensitive, best-in-class, modernised homes, that have been thoughtfully presented, are driving competition.

The American School is ever-popular and the Bank of Mum and Dad is a contributing factor to tenancies this year with many students – aware of the fight for good accommodation – signing in May and June ahead of September. St John's Wood is also a hotbed for young professional couples moving into their first place together.

There is an interplay between the sales and lettings markets as property owners commonly seek valuations, deciding whether to sell or rent, but with a rising awareness that they could miss both markets. Pricing and timing are everything in 2024.

STEPHEN LINDSAY
Sales

LUKE HULL
Lettings

CHELSEA

The best market for 15 years

A wave of confidence has flowed through the Chelsea sales market this year – a feeling that grew in size and momentum up to and beyond the July election, and one that signals a busy autumn ahead.

Normally, when the summer sporting events programme starts – marked by the Henley Royal Regatta – viewing numbers fade. However, this summer potential buyers were house-hunting in the morning and at Wimbledon in the afternoon.

This is due to a 'Labour bounce' (reminiscent of the 'Boris bounce') as buyers found a newfound sense of assurance following a prolonged period of uncertainty.

Different buyer tribes came to Chelsea in 2024 from different directions with more US buyers than ever before, motivated by worries over the US election and the positive exchange rate.

Europeans are still seeking to educate their children here and the domestic family market is strong too, along with retirees looking for a London-based bolthole.

The premium roads of The Boltons, The Vale, Cathcart Road and Onslow Gardens have retained their unwavering appeal, while asking prices and above can be achieved on properties that have been extensively modernised. There are exceptions to this rule: a post-war, architecturally revered house had 48 viewings in less than two weeks in January and attracted eight offers. In a year of turmoil across the wider residential sales market, we have seen many of these good-news stories in Chelsea.

Lettings have been steadier, however. The pace has been reset after frenetic levels of demand and rent rises in the wake of the pandemic.

The most defining feature of the 2024 lettings market is its return to traditional seasonality, resembling the format of 2019 and before. January to March was quiet before the prime families came out in force in April. Students and young professionals returned in the summer months as the school holidays start and we expect both these markets to collide in September.

There is more stock coming onto the market as landlords who couldn't achieve over-ambitious pricing return to lettings. This is a theme across prime central London. Tenants are therefore in a better position than they have been since the early Covid days. There is still more stock than demand, but the balance is more levelled than it was.

Both product and location are pulling in relocators from across London, drawn to the schools, the green space and the traditional architecture of white stucco facades, along with Chelsea's village feel, proximity to the Thames and world-renowned lifestyle amenities along the King's Road, Sloane Street and Knightsbridge. The opening of Josephine, the French bistro from Michelin-starred

OLIVIA LEIGH

Sales

OLIVER MELLOTTE

Lettings

NOTTING HILL

There is a market for best-in-class property at the right price

Notting Hill's attractive streetscape and architecture, its neighbourhood feel and its long-standing reputation as a cool place to live mean it tends to buck wider down cycles across PCL. However, the world of London property became a different place after the Liz Truss emergency budget of September 2022 and even the evergreen housing market of Notting Hill was impacted.

The majority of the community is connected to the financial sector. For instance, there were fewer IPOs in 2023, which has a dampening effect on buyer proactivity.

January and February felt quiet this year and come early spring and Easter, both vendors and buyers were sitting on the fence – and it was difficult to convince anyone to dismount! Sellers felt this wasn't the time to get that magic number and buyers believed there was a discount to be had, creating a stalemate.

However, there are corners of Notting Hill and tenures of property which will always sell: any homes backing onto a garden square and houses that have been finished to a very high specification. Gone are the days when an ambitious buyer would purchase a townhouse in Notting Hill in need of an overhaul. The combination of stamp duty and construction and materials cost means there is no appetite to do a project in 2024. Therefore, for those who launch a best-in-class home at the right price, against limited competition, there is a market.

In lettings, any drop off was less pronounced than in Covid. Of course, some tenants made the move out of London, but Notting Hill benefitted from its unusual juxtaposition of being a leafy suburb right in Zone 1. In fact, it wasn't until the second half of 2023 that the heady lettings market started to adjust.

The cost of living crisis, high interest rates and the business reality of Brexit all started to manifest in corporate life. This led to a 10 per cent drop in company relocations and a softening of demand to rent from within the tech industry. Overall in 2024, new applicants are down 10 to 15 per cent and supply is up 10 to 20 per cent. This is leading to a rebalancing within the lettings market in Notting Hill, with rents correcting. Landlords are coming to terms with this and adjusting their expectations.

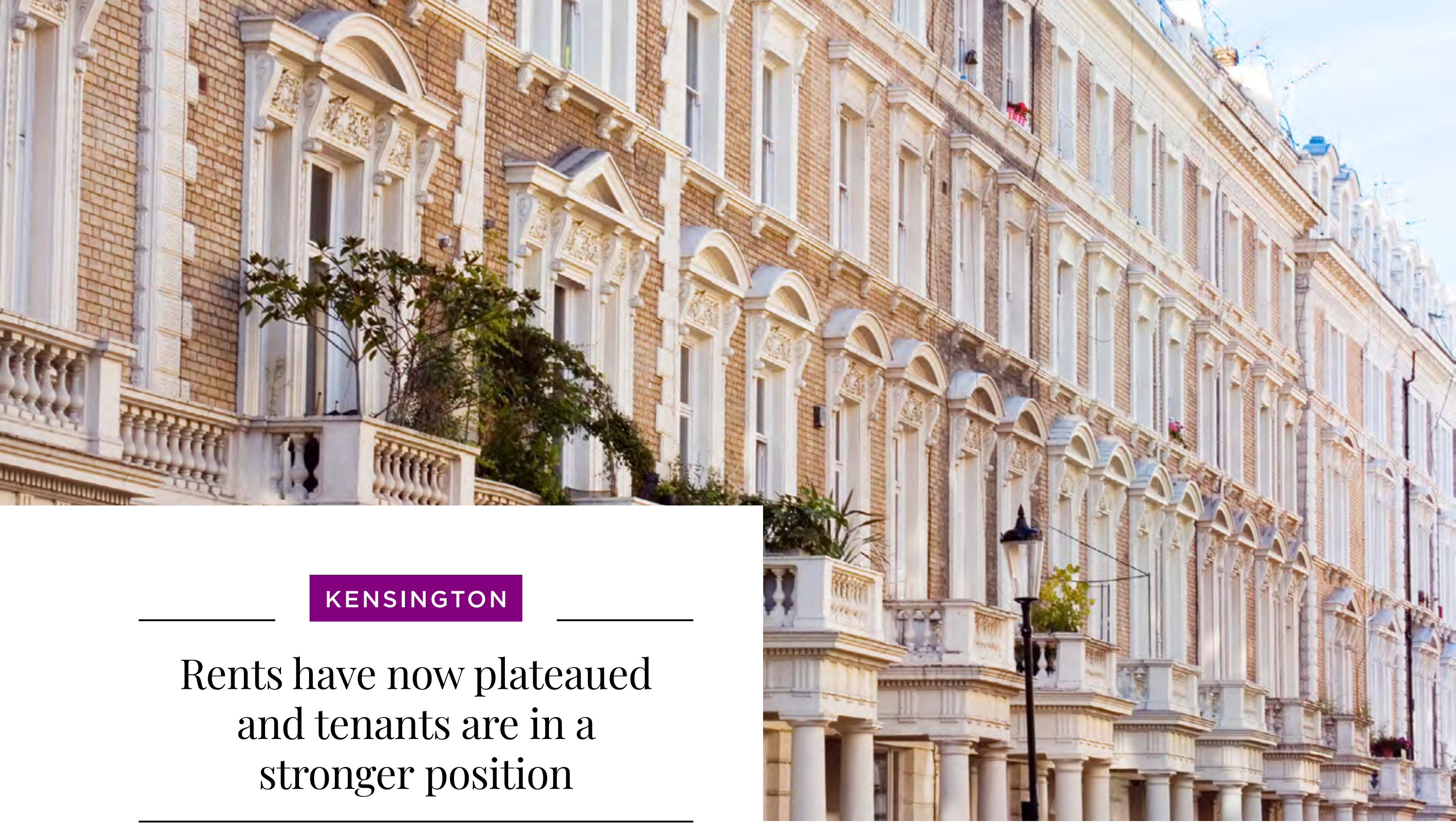
However, there are indicators that activity could crank up quickly in the autumn as interest rates look set to continue to fall. US tenants are coming over from LA and San Francisco, while international families are drawn to prep schools such as Pembridge Hall. It only takes a flurry of families to move the supply-demand needle in such a small neighbourhood.

Despite the recent increase in stock, it is still at historic lows, cushioning rents. This also means that there is a flight to quality for which people will still pay over the odds.

The wider neighbourhood continues to improve: All Saints Road has a real boutiquey feel now, the Dorian bistro arrived after the pandemic on Talbot Road, and the Ledbury was awarded its third Michelin star in February. Schools, food and the kudos of living in Notting Hill continue to define the market.

MARK REDFERN
Sales

ARCHIE ORR EWING
Lettings



KENSINGTON

Rents have now plateaued and tenants are in a stronger position

Kensington is popular with those who want to be able to walk out to A grade restaurants and amenities and other highly desirable locations within seconds of their front door. But the run-up to the general election has been challenging here (especially in the denser urban patches of South Kensington and Kensington High Street).

The cost of debt is a factor as well as the question mark over "non-doms" status and taxation. This summer, the super-elite are reviewing their property and investment portfolios and number crunching.

There are busy buyer tribes, however, and pockets of activity. US buyers are subject to a global taxation regime and therefore "non-doms" tax changes are irrelevant. Domestic buyers are confident and keen to move. The core market (below £4 million) is active, especially around the pretty village centres. Pastel cottages will still fly off the market in Hillgate Village, between the green spaces of Holland Park and Kensington Gardens. Houses and apartments with gardens are also in high demand, and anything priced soberly will transact. Apartments at Holland Park Gate are selling off the market, and luxury homes at Lancer Square are selling well too.

The lettings market has shifted over the course of 2024. Last year, it was common to see five or six offers on one property. Echoing the sales side, upper prime is quiet (rents over £2,500 to £4,000 a week) unlike the core market (between £450 to £600 per week for a studio or a one-bedroom flat). These properties are still attracting a flurry of viewings and in all likelihood, they will go to best and final offers. Affordability constraints mean tenants are scaling back their requirements and not stretching themselves.

The renewals business is excellent, reiterating the trend across PCL lettings that tenants are seeking stability over relocation. Affordability constraints and the need for stability, combined with nervous landlords, puts tenants in a stronger position and means that rents have now plateaued.

Savvy students, funded by the Bank of Mum and Dad, arrived early this year, taking out properties in June for September, having learnt the lesson from previous years where demand has outstripped supply.

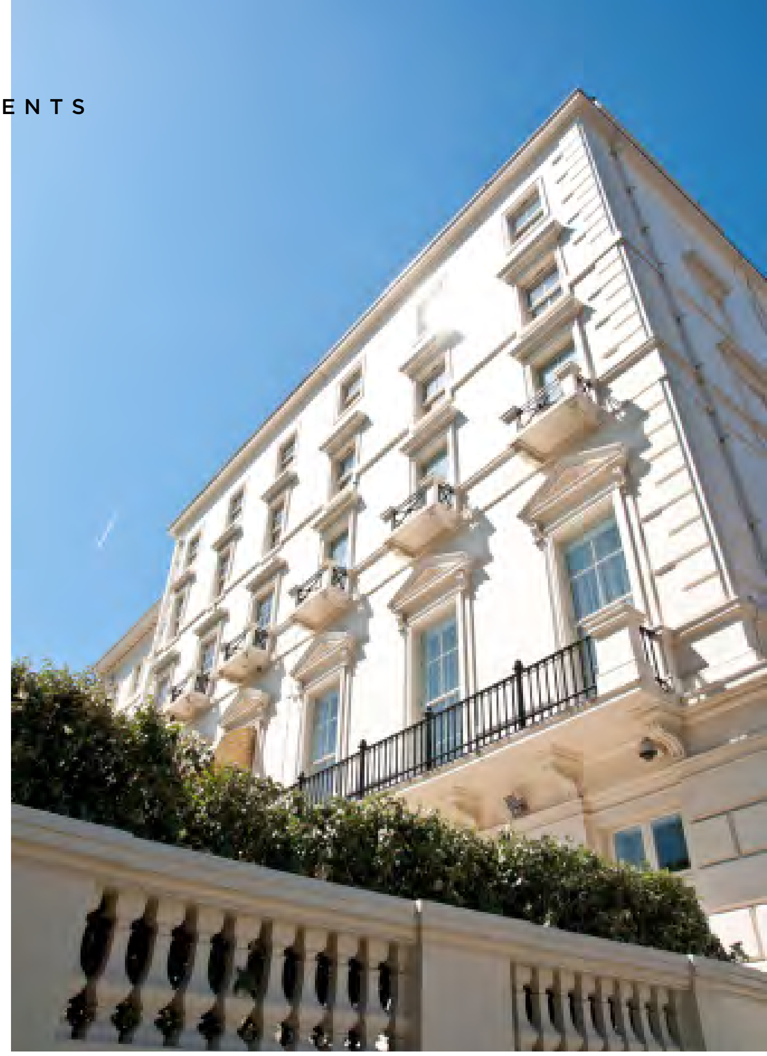
While the vast parks and education power the market, there is the churn of new openings keeping the scene fresh: last year saw the arrival of the Italian Jacuzzi on Kensington High Street and Amaro the cocktail bar, while Kensington Roof Gardens has become a members-only club as Kensington seeks to compete with Mayfair.

PETE BEVAN

Sales

LOUISE GOOD

Lettings



MARYLEBONE

We have reached the bottom of this market

Buyers and tenants alike used to see Marylebone as an 'and/or' destination. They would say, "We would quite like to be in Mayfair and/or Marylebone". Over the last decade, Marylebone has become a primary place to live. Every year this sentiment grows and we see more and more Marylebone-only searches.

This is down, in part, to the Howard de Walden Estate, which owns the high street and has been incredibly clever in creating a central London village location that feels different to any other area of the capital. Crossrail has opened up Marylebone too, with finance professionals realising they can sit on a new air-conditioned, high-speed train, conveniently linking Canary Wharf and Heathrow.

Another bonus is the lack of tourists. There is no underground station on the high street and the absence of a busy stream of people is wonderfully noticeable.

It is the lettings market that is really benefitting from the unique bubble that is Marylebone so far this year.

This is the first 'normal' year after Covid in the lettings market and it has been the best ever for the number of deals done in Marylebone. The era of dramatic rent rises has passed now, during which we saw frustrated tenants unable to secure a home at the right price, pinched by intense competition.

While rents were at record highs in 2022 and early 2023, the market is healthier now and more stable with a stream of new build homes feeding demand, from developments such as Marylebone Square which is just off the high street.

Overseas tenants who want to stay for three-to-five years can walk to work and live right in the heart of London, with exceptional retail and hospitality outlets hand-selected by the estate. Clothes store, Sézane has been joined by Octobre (French menswear) and the New York eyewear brand, MOSCOT, while the Bayley & Sage deli is cherished locally too.

Part of this flow of stock is coming from sales to lettings as wannabe vendors opt to hold on to the property until interest rates come down further.

International buyers have drifted over to lettings, unnerved by uncertainty, while domestic buyers have drifted over because of interest rates. Correct pricing is key so as not to distort the market and to more closely align buyer and seller expectations.

The market for homes priced between £3 million and £6 million is active, with buyers purchasing with their hearts not just their heads. But the £500,000 to £1.5 million arena is far more price sensitive as people in this price bracket are far more impacted by the cost of mortgage debt.

Those buyers who are shopping are serious and motivated – but putting the price too high detracts from the excitement and impetus that can be generated on launch day. Silly pricing kills the deal in the 2024 market which we believe has reached its bottom.

NICK POPPE
Sales

CHRISTOPHER SAYE
Lettings

SAVILLS' PRIVATE OFFICE

Off-market deals are becoming a quirk of the rental market

The wake of the pandemic has been reminiscent of the aftermath of the Global Financial Crisis. Prices fell fast and therefore quickly sparked the beginning of a new sales market. This led to a busy 2022 and 2023 for the ultra-high-end sales market across central London. Of course, the rise in interest rates (14 straight increases in two years) and the cost of living crisis has very real implications for the tenants and homeowners in the mainstream property market and those in temporary accommodation. But it does also impact deals at the top end. Industry leaders and ultra-high net worth individuals are being careful to appear prudent and not drop large sums of money on another trophy home.

The increased cost of debt (from historic lows) impedes the easy flow of such acquisitions while the question of how punitive a stance Labour will take against non-doms impacts too – it is uncertainty that kills a market after all.

There are additional fears that the early Autumn Statement – set for October 30 – could see the Chancellor Rachel Reeves target trust funds and inheritance tax.

However, despite all of these conspiring factors, schooling and education in England remain a key driver for super-wealthy, global families who are planning an educational pathway to Oxford, Cambridge or a prestigious US college. It is this, together with London's cultural pull and status as a leading global city, which propels them to transact regardless of the economic and political backdrop.

The jolt of 2020 created the perfect rental market for the Private Office team. There was a huge amount of pent-up demand as people sought to upsize and relocate. Desirable stock became available as property owners changed lifestyle. It was a dynamic and decisive lettings market – if people wanted that trophy home they would go for it.

Although the market has calmed, it is feeding off the uncertainty in the sales market.

There's a real fluidity between these two sectors this year. The burden of stamp duty means for those who are not ready to make a very long-term commitment, renting is more economical. Those potential vendors who are not securing offers at a level they want are choosing to rent out their homes, hence rental stock levels are creeping up, rebalancing demand.

Hence the lettings market is still buoyant, although price sensitive. Global people still want to enjoy their day-to-day lives in London, positioning themselves to run global businesses from America to Asia.

Circa 70 per cent of deals are being done off the market. This has typically been a trait of the sales market but is fast becoming a quirk of a rental sector in 2024. We are working to be agile and to discretely match potential landlords with potential tenants and find the appropriate price point in a complex era.

In both sales and lettings Kensington, Notting Hill, St John's Wood and Chelsea are busy as families are focused on education, while Mayfair remains an ever-popular status address with all London has to offer right on the doorstep.

We think the earlier-than-expected election and the likelihood of further interest rate cuts, followed by the Autumn Statement giving clarity to taxation, will lead to a busy November through to Christmas.

ALEX CHRISTIAN

Sales

ISABELLA BIRCH REYNARDSON

Lettings

SUPPLY AND DEMAND

IN THE PRIME CENTRAL LONDON RENTAL MARKET

WORDS BY JESSICA TOMLINSON
Associate Director, Residential Research

While long-term rental growth across the majority of the private rented sector is underpinned by an inherent under-supply of available rental stock, this is much more difficult to argue across prime central London. This reflects both the residential land holdings of the so-called "Great Estates" and the scale of investment from overseas and domestic investors over many years.

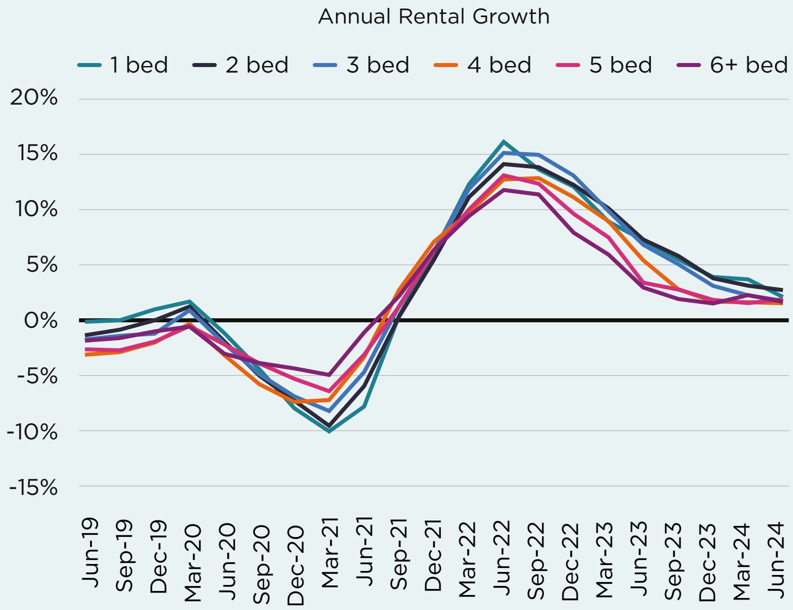
LESSONS FROM THE CENSUS

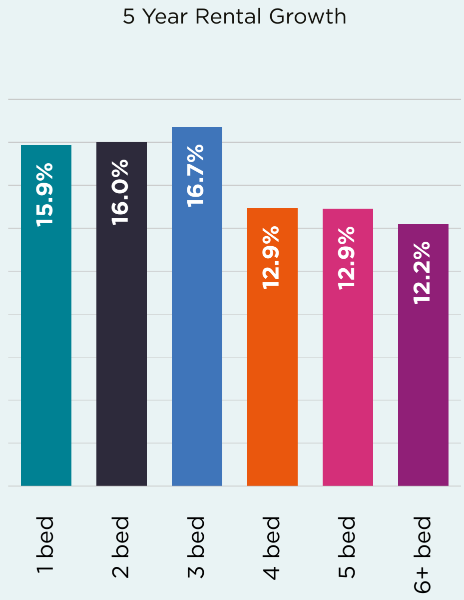
Indeed, data from the census tells us that 42% of all homes and 58% of privately owned homes across the boroughs of Westminster and Kensington & Chelsea are in the private rented sector, with 75% of privately owned one-bedroom properties rented.

Against this context, demand is much more international and typically more discretionary than in other parts of the rental market. The same census data tells us that 56% of those renting in the same two boroughs do not hold a UK passport.

The result is less sustained long-term upward pressure on rents. That generally means more competition among landlords to attract demand from a pool of affluent multinational tenants. And the depth of that demand is not only dependent on London's standing as a global financial centre, tech city and place to study, but as importantly, its accessibility.

RENTAL MOVEMENTS OVER THE PAST 5 YEARS IN CENTRAL LONDON





Source: Savills Research

BIG SWINGS AND A RETURN TO NORMALITY

For this reason, we have seen some big swings in rental market conditions over the past five years. Initially, the pandemic and the resultant lockdown curtailed demand, causing levels of unlet stock to rise dramatically and put significant downward pressure on rents. However, that was relatively short-lived, with any falls in rents more than offset by unusually strong rental growth, as a surfeit of supply quickly turned to a deficit when London reopened.

More recently, the market has, for want of a better phrase, normalised, with longer-term drivers and demand and supply returning to the fore. The market has also reverted to more seasonal trends, which were the norm pre-pandemic, with stronger growth returning over the second quarter in line with the traditional busy summer period. This means that annual rental growth across prime central London returned to 2.0% in the year to the end of June.

As we look forward, the market is less exposed to disruption from rental reform than the wider rental market, not least because of the amount of rental stock that sits above the current Assured Shorthold rental threshold. Meanwhile, any changes in non-doms taxation may tip the buying versus renting dilemma a little more to the latter.

THE WHO, WHAT, WHERE OF NEW BUILD

WORDS BY GABY FOORD
Director, Residential Research

Over the last ten years, the changes within the super prime new build market can be summarised with three key Ws – the Who, the What and the Where.

THE WHO

We're not talking about the rock bands here, but who is buying. And it's safe to say the wider global economy and major events have undoubtedly had an impact. The weakness of sterling since 2016 after the EU referendum has provided an opportunity for some buyers, particularly those with currencies pegged to the US dollar. As such, we've seen increasing demand from buyers from North America and the Middle East.

But interestingly, there has also been more domestic demand – particularly in the years following the Covid-19 lockdowns. Travel restrictions impacted how many potential overseas buyers could travel to London, but we've also seen more demand for pieds-à-terre from domestic buyers, in addition to their country retreats. With security and services such as concierge, the super prime new build market has been well-placed to meet this demand.

THE WHAT

The most significant change to what is being built in central London has been the amount. The total stock of new homes over £5 million has almost halved over the last decade, meaning there is much more focus on the type and size of product coming through.

This reflects the challenging nature of the London development market, with increased building costs, debt costs, higher environmental standards and stricter fire safety all putting pressure on how viable new schemes are to deliver. But central London developers also have to contend with significant changes to planning policy.

Westminster City Council's introduction of a size limit of 200sqm to all new homes has been swiftly followed by Kensington & Chelsea and, more recently, Camden Borough. This means that only super prime schemes currently with planning permission will be able to deliver large homes going forward. And this is significant when you consider that two-thirds of new build flats sold above £5 million since that change was brought in in 2021 have been above this size threshold – showing a strong desire for larger homes.

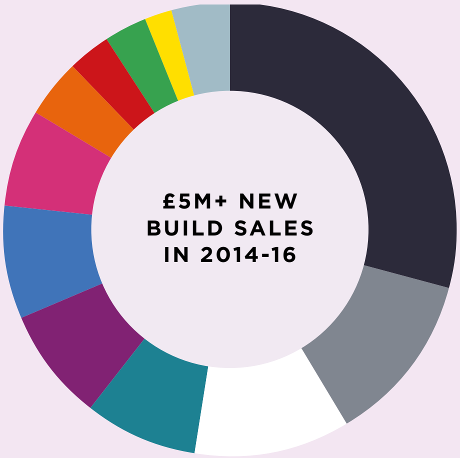
Another key change has been the quality of homes being built and the amenities they offer.

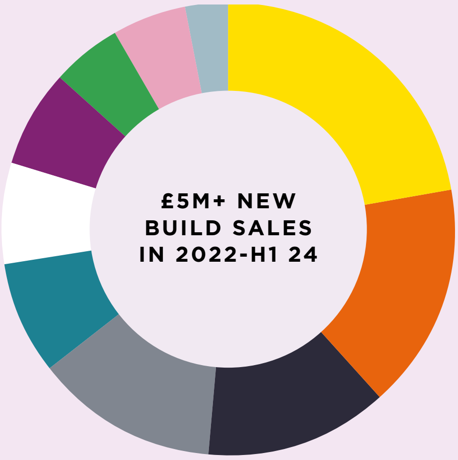
Branded Residences, developments affiliated with premium brands that can offer high-quality amenities such as room service, have been on the rise across the globe. Key recent schemes within London have included the Four Seasons Residences at Twenty Grosvenor Square, Six Senses at The Whiteley and The OWO Residences by Raffles. But access to these luxury amenities comes at a price – with branded residences across London often seeing a price premium over non-branded ones.

THE WHERE

A decade ago, we were seeing far more super prime sales in traditional central locations like Belgravia, Mayfair and Kensington. But regeneration led by investment in public realm has seen the rise of new super prime markets. Howard de Walden's investment in Marylebone High Street has resulted in a significant increase in new super prime sales in the area. And more recently, the £3 billion public realm regeneration programme in Bayswater means sales above £5 million have increased from 2% between 2014 and 2016 to 22% since 2022. The £psf achieved at key developments in Bayswater, like The Whiteley and Park Modern, are now reaching the heights of more traditional central London locations – only -27% and -9% lower than Mayfair and Belgravia, respectively.

CHANGING LOCATIONS OF NEW BUILD SALES





Belgravia · Mayfair · Kensington · Chelsea · Westminster · St John's Wood · South Kensington · Marylebone · Holborn · Southbank · Bayswater · Other areas · Holland Park

Source: Savills Research

But with the pipeline of new schemes shrinking, there are fewer locations in which to buy a new super prime home. Meaning that over the next decade, the new homes you can buy with access to high quality amenities and large, lateral spaces may well be the last of their kind.

READINGS FROM ACROSS THE GLOBE

Starting with Jane Austen and ending with Emily Brontë, Kelcie Sellers of our World Research team takes inspiration from the world of literature in putting the prime residential markets of London into a global context.

WORDS BY KELCIE SELLERS

Associate Director, World Research

Of all the classics, *Sense and Sensibility*, the 1881 novel written by Jane Austen, probably best describes the recent performance of the global prime residential market – price growth across the 30 markets Savills monitors remained positive in the first half of 2024, with values rising by an average of 0.8%, led by the performance of European and Middle Eastern cities.

For many European locations, undersupplied markets have driven prime residential price increases. Across the EMEA region, only two of the 13 markets found themselves *East of Eden*, to misappropriate the words of John Steinbeck. Berlin and London were the only such cities to see prices fall, with values easing back modestly by -0.8% and -0.1%, respectively.

Though prices have fallen marginally in London, demand from domestic and other international purchasers has been supported by growing stability in the mortgage market. However, questions remain about the status of non-doms in the *Brave New World* of the Labour government (Aldous Huxley's 1930s vision of a futuristic world state).

Italy, one possible destination for such non-doms, has recently announced that it is doubling its flat tax to €200,000 on overseas income for *The Outsiders* (in this case - and with apologies to the author S.E Hinton - new tax residents). The policy, popular with global high net worth individuals, has fuelled an uptick in demand in business hubs, such as Milan, which has seen prime residential price growth of 1.6% in the last year.

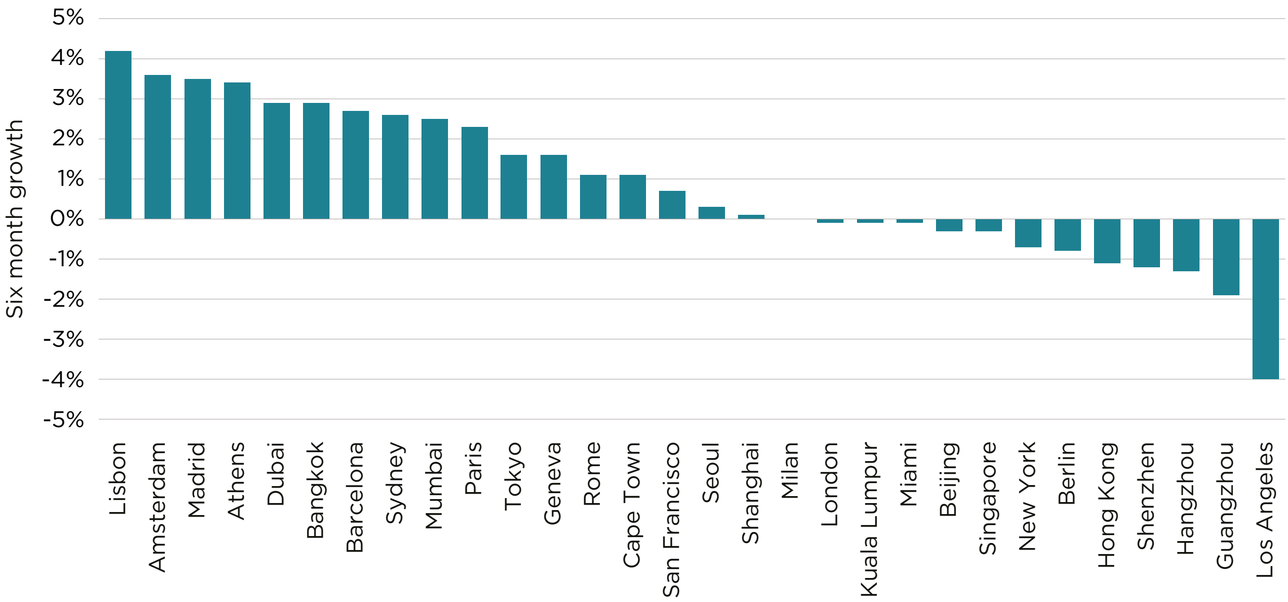
London is also seeing increasing numbers of cash-buyers who are able to avoid high interest rates, through opting out of using a mortgage to finance their purchase altogether. This trend is also seen across the *North and South* (Elizabeth Gaskell, 1854) of the US, where high interest rates have brought the housing market to a crawl; the prevalence of the 30-year fixed interest rate mortgage means that few are willing to enter the housing market, particularly if their current mortgage is fixed to a low rate, even in the prime market. As a result, prime residential prices have fallen in three of the four US cities, with only San Francisco seeing positive capital value *Metamorphosis* (Franz Kafka, 1915) of 0.7% for the first half of the year.

Asia Pacific markets have seen a more varied performance over the first half of the year, creating a *Tale of Two* (groups of) *Cities*. Bangkok, Sydney and Mumbai have each seen growth of more than 2.5% in the first six months of 2024; each market has seen elevated levels of demand in their prime submarkets, coupled with limited supply, supporting this pricing.

Chinese prime residential markets are continuing to see the impact of government measures to support the housing market, but overall, this has done little to move the dial on buyer confidence and *Hard Times* remain for the near term (albeit somewhat less severe than portrayed by the pen of Charles Dickens in the mid-19th century.) Of the five cities, only Shanghai saw positive capital value growth of 0.1% year to date. In Hong Kong, the withdrawal of cooling measures boosted mainstream sales, but prime sales remain depressed given high interest rates, which are linked to US Federal Reserve interest rates, and lower numbers of mainland Chinese buyers. As a result, prime capital values fell by -1.1% over the first half of the year.

For the second half of the year, there are *Great Expectations*; we predict an average capital value growth of 0.5%, which would bring total 2024 growth to 1.3%. Cape Town is forecast to see the highest growth for the remainder of 2024, with capital value increases forecast to reach the *Wuthering Heights* of +4.0% to 5.9%. The more positive political and economic outlook, combined with the prospect of interest rate relief later in the year, bodes well for a recovery in the local housing market.

CAPITAL VALUE GROWTH BY CITY (SIX MONTHS TO JUNE 2024)



Source: Savills Research

For over 160 years, we've advised on best-in-class property in London's most desired postcodes. Across 15 central offices, we guide our clients to make the right property decisions, whether they're investing in a luxury pied-à-terre in Mayfair or searching for an elegant family home in Holland Park.

Savills Research

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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