PRIME EXPANSION: THE £2,000PSF WAVE

CBRE

PUSHING THE BOUNDARIES

THE LONDON RESIDENTIAL MARKET CONTINUES TO GO FROM STRENGTH TO STRENGTH, HIGHLIGHTED BY THE UNRELENTING SUCCESS OF NEW-BUILD SCHEMES. SALES RATES ARE UP, VALUES ARE UP, AND WHAT WE CONSIDER 'PRIME LONDON' HAS GROWN RAPIDLY ACROSS THE CAPITAL.

Historically £1,000 psf was considered the prime benchmark for new properties, but this price point has been swelling more than any other, both in terms of the volume of stock and the geographic locations achieving this price. As an average on new build schemes, £1,000 psf has been 'spreading' at a rate of 125 metres per year, engulfing new areas that were previously considered fringe.

The prolific growth of £1,000 psf as the new norm across Central London has been boosted by the even more rapid increase of £2,000 psf in the very core of prime. This price point was once limited to the average on new schemes in the renowned 'golden postcodes' of Knightsbridge, Mayfair, and Kensington and Chelsea. Now, schemes in these areas, like Grosvenor Crescent and Holland Green, are achieving in excess of £4,000psf.

The £2,000 psf has now stretched into new territories and is continuing to push its boundaries. The Heron Tower is achieving pricing not far off this level, bringing the City well into prime territory. Southbank is also being captured by the prime boundary.

Southbank is the biggest success story of London over this decade, with some of the most exciting redevelopment projects and subsequently, most impressive surge in new build values.

The strong performance of the top end of the market has, in part, been supported by the underlying capital appreciation, but it has also been product driven.

London is leading the international field and developers have recognised how buyer expectations have risen over the last five years. They have responded quickly, and evidently appropriately, to this perennial demand for super high quality stock.

There is no doubt that the upper echelons of residential real estate have been more resilient during the recession, thriving on cash-rich domestic purchasers and a seemingly endless reserve of overseas interest. However, it would not be accurate to suggest that prime is racing ahead of the market in terms of price growth, leaving the rest of London in its wake. Rather, confidence is rippling out into the wider fringe of prime, and will play a pivotal part in supporting some of the capital's most important regeneration projects.

"An area we are particularly excited about is just south of the river. Given the quality of the schemes coming out of the ground, Southbank will soon be firmly established within the 'prime' boundaries. Iconic towers in the pipeline will change the Southbank landscape. But, product is key; in order for the new price point to be achieved in this locality, new developments need to exceptional, with a full range of amenities and benefitting from panoramic views of London."

MARK COLLINS

THE NEW NORMAL: £1,000 PSF

Fulham Riverside

The London residential market has shown resilience over the last year, with steady sales rates, and ongoing value uplift. This is most evident in the new build market, which continues to defy expectations, both in terms of take up and pricing.

58% of all £2m-plus properties sold in London in Q1 2013 were located in the prime boroughs of Kensington and Chelsea and City of Westminster.

There has been a clear shift in values, at both ends of the market; the volume of sales in the £300 – £399 psf bracket have expanded rapidly, but growth is more notable at the top end of the market. The volume of sales of new-build schemes over £1,000 psf doubled between 2011 and 2012, and this trend shows no sign of slowing down so far in 2013.

The price distribution of the new-build market is shifting upward, and new developments are also selling faster. Absorption rates are now at an all-time high, with 56% of homes that are still under construction already sold off-plan. This is much more acute in prime areas where there is little development.

Of all stock that has completed in the last twelve months, 94% had already sold off-plan.

The appetite for new-build stock is encouraging developers to bring their launch dates forward; this was most evident at Battersea Power Station, where all 800 units in its first phase sold in the first quarter of 2013, before construction work had even started. Indeed, most of the fastest selling schemes over the last year have all been along the Battersea-Southbank stretch, and have all been hovering around the £1,000 psf benchmark; this is by far the fastest growing part of the market.

A third of all sales in the prime boroughs in Q1 2013 were over £1m. 13% of all sales were over £2m.

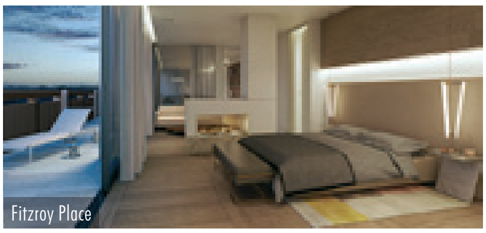
It is almost impossible to buy newly completed stock now, with most new homes selling off-plan and selling quickly. Over 3,000 homes completed in Inner London over the twelve months (to March 2013) but in April, there were only 111 completed homes in all ten Inner London boroughs left to buy.

Buyers have not been deterred by the changes to Stamp Duty Land Tax, nor the ongoing discussion around 'Mansion Tax'. According to Land Registry, there were 12% more sales over £2m in March 2013, compared with March 2012, when the changes were introduced.

THE EVER EXPANDING PRIME MARKET

The Henrietta

The surge in frequency of £1,000 psf as an average price of a new-build scheme has not just occurred in the volume of stock, but also its geographic reach, with more areas breaking through this benchmark. Last year, this pricing level extended along the Southbank to the Battersea/Nine Elms regeneration area, where river fronting schemes achieved an average of £1000psf. New-build river fronting schemes in Fulham also achieved £1000psf. The boundary has also moved further east to include Aldgate East, parts of Shoreditch and Wapping.



Fitzroy Place

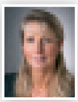
Fitzroy Place is currently averaging just shy of £2000psf. This scheme has broken the ceiling price for the area. It has sold well overseas, but is also incredibly popular with domestic buyers.

This wave has been pushed by the inner nugget of £2,000 psf, which has also spread rapidly. This price point is establishing new boundaries. While its roots are in Knightsbridge, the traditional home of the super prime, it has spread year-on-year, to capture pockets of Chelsea, Kensington and just north of Hyde Park. These areas are now achieving well in excess of £4,000psf; One Hyde Park has reportedly achieved an average £6,000psf across the scheme.

There is the real potential for new schemes in new areas, if designed well, to also break this pricing ceiling, bringing the traditionally more fringe areas into prime territory.

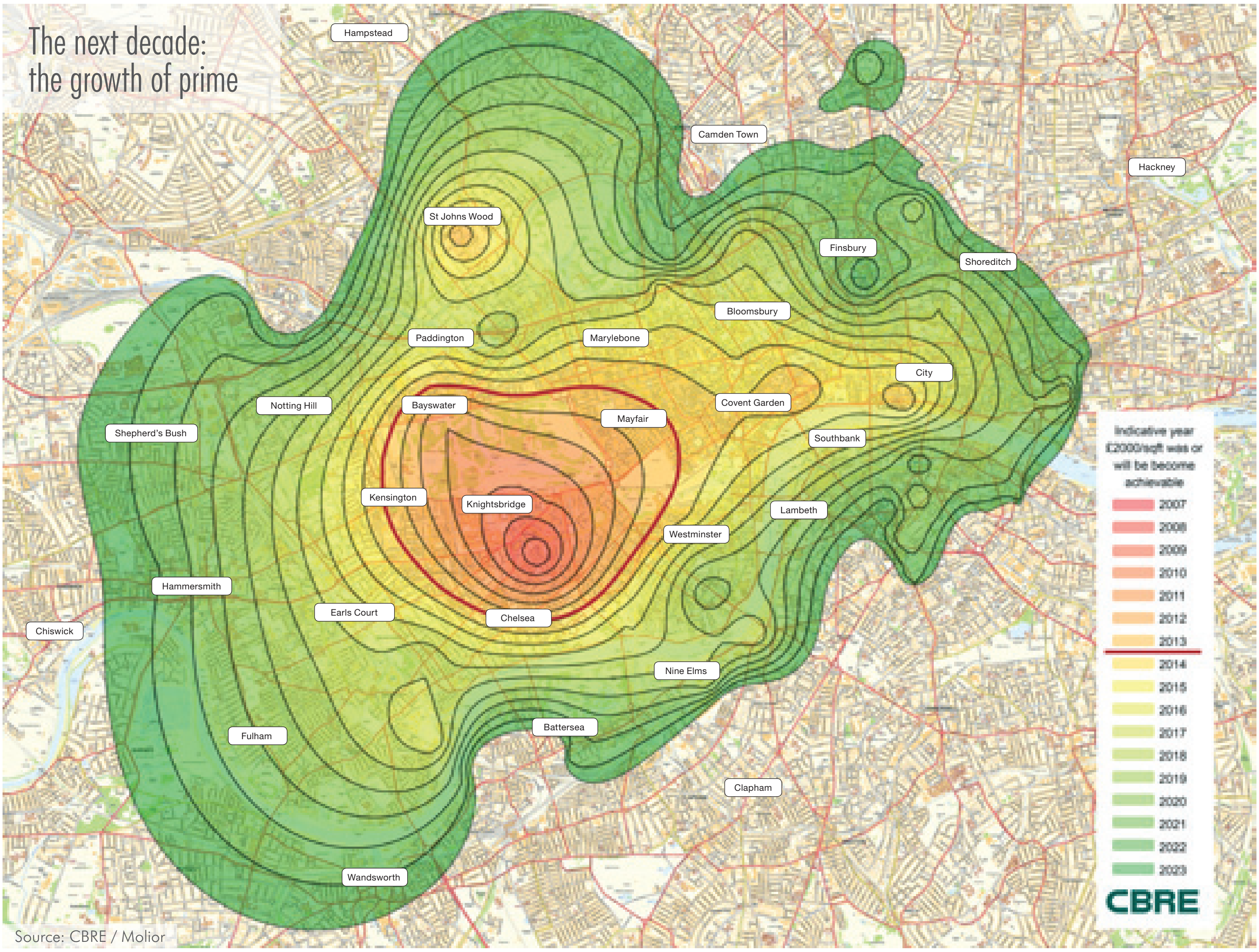
The Heron Tower is currently achieving just below £2,000 psf and so the City could also edge itself up into the prime market shortly. Schemes like Marconi House, which averaged around £1,900psf, mean that Aldwych will shortly fall into the prime boundary.

Our forecasts suggest this price bracket will expand at around 350 metres per year. As a result, we envisage areas that are undergoing substantial redevelopment, such as Paddington and Earls Court, which have products tailored to a very high standard, could reach averages of £2,000 psf within five years.



"It won't be long before £2,000 psf is the routine level in Covent Garden. Landmark schemes such as Capco's The Henrietta, located on the Piazza, have already hit this price point. As developers continue to respond to the market by developing high specification, luxury new developments and refurbishments, we expect this price point to become the benchmark level for the area by 2015." LISA HOLLANDS

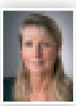
There is no doubt that London's prime pockets are enjoying the most success in the current market. However, the benefits of this are not restricted to this very narrow and limited section of the market. The £2,000 psf wave is pushing out the £1,000 psf, which in turn is creating more viable development conditions in new areas. This level of confidence is spilling into the key Opportunity Areas, such as King's Cross, Stratford and the Vauxhall-Nine Elms corridor. This underpins the development opportunity and in turn, helps create economic prosperity in new areas when it is badly needed.



KEY DRIVERS OF PRICE GROWTH

The rise in prices partly reflects the underlying capital appreciation. This is being driven by a fundamental supply and demand imbalance in the wider housing market. According to the recent census the population of London has increased by 800,000 in a decade. In contrast only around 200,000 new homes have been built. It's no wonder prices rose by 75% over the same period.

The chronic shortage of housing is more pronounced in Prime Central London, where there is not only the need, but also a more distinct market demand. There were less than 550 units completed in the prime boroughs of Kensington and Chelsea and Westminster last year. This means buyers who traditionally focussed on these prime boroughs will have to expand their search net wider.



"Although overseas buyers receive a lot of attention in the media, they are by no means the only players in the London market. Over the past year 52% of our purchases over £1 million have been made by purchasers from the UK. As the economy and confidence picks-up we expect to see increasing numbers of domestic buyers." LISA HOLLANDS

The population of London is expected to grow by 14% over the next decade; an additional 1.17 million people will need to be housed.

London's safe haven status, in addition to the low value of the sterling, is still driving overseas demand at large, high-end developments. Many of the fastest selling schemes of the last year owe much of their success to early launches in Hong Kong, Singapore and Kuala Lumpur. But longer-term factors are also at play, including:

- London is a **leading financial city**;
- time zone benefits;
- **cultural and educational offering**;
- **healthy rental market**;
- London as a safe haven; and
- Historic house price growth

Our price growth predictions are based on a relatively speedy return to economic health. The near-term outlook for the London economy is relatively subdued, with no Olympics boost to come in 2013 and ongoing restructuring in the financial sector. However, as this restructuring begins to bear fruit, and business confidence and global investment flows start to recover, London is expected to accelerate strongly.

London benefited from strong employment growth of 200,000 last year, which accounts for more than a third of the total increase in employment across the UK. According to Oxford Economics forecast, Central London employment growth of 1.4% p.a. between 2013 and 2017. This, with a steady pick-up in real disposable incomes, will continue to underpin the capital's housing market.

According to Oxford Economics almost 1 in every 4 new jobs created in the UK over the next five years will be based in London.

For more information please contact:

JENNET SIEBRITS
Senior Director
Head of Residential Research

CBRE
Henrietta House
Henrietta Place
London W1G 0NB

t: +44 20 7182 2066
e: jennet.siebrits@cbre.com

HELEN GRAY
Associate Director
Residential Research

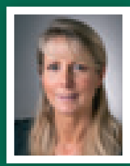
CBRE
Henrietta House
Henrietta Place
London W1G 0NB

t: +44 20 7182 2068
e: helen.gray@cbre.com

MARK COLLINS
Chairman
Residential Development and Sales

CBRE
Henrietta House
Henrietta Place
London W1G 0NB

t: +44 20 7182 2264
e: mark.collins2@cbre.com



LISA HOLLANDS
Managing Director
Residential Development and Sales

CBRE
Henrietta House
Henrietta Place
London W1G 0NB

t: +44 20 7420 3036
e: lisa.hollands@cbre.com

External data sourced from Molior, Land Registry and Oxford Economics.

CBRE