Black Brick
Finding perfect properties

Market Update

July 2020

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London property: data versus anecdote

Anecdote gets a bad rap. Anyone setting out to analyse a particular situation is always encouraged to look at the overall data, rather than relying on an individual's subjective experience. That said, a buyer trying to navigate London's post-Covid prime property market would do well to disregard the market data and listen to the experiences on the ground.

"There's a big gap between what the market analysts are saying about falling prices across London and what potential buyers of high-quality properties in the best areas are finding," says Camilla Dell, Black Brick Managing Partner. "Buyers were led to believe during lockdown that prices would come off – in many cases, that's simply not happening."

Data from agents such as Knight Frank show price falls – with average prime London prices falling 5.1% this year to the end of May. However, these figures are based on limited data: according to government figures, there were just 38,000 transactions in the entire country in April, 55% below the five-year average.

While large new-build developments or properties in less desirable areas or even streets are likely to be discounted by sellers, pushing the average figure down, popular parts of prime London, and particular types of property, are in high demand, notes Caspar Harvard-Walls, Partner at Black Brick. "If you're looking in Hampstead, Barnes, or Fulham, you're going to face a lot of competition," he says. Dell notes as an example a "real lack of supply" of lateral, three-bed apartments in St John's Wood.

Savills notes some interesting data from HMRC which, while it relates to the overall UK market, gives clues to what's happening in prime areas. It shows a year-on-year surge in sales agreed this June (the result of delayed transactions during lockdown), but with that surge at the higher end of the market: specifically, the number of sales agreed above £500,000 was up 53% year-on-year but was only up 12% for sales below £200,000. This suggests that demand for more expensive properties is supporting prices at this end of the market.

Now, as pent-up demand surges back, buyers are facing stiff competition for limited supply. "Those sellers that are in the market are not desperate," Dell says, with low interest rates and government support schemes helping to reduce forced selling. This, she adds, is contributing to a gulf in expectations between buyers and sellers: "There's a real Mexican standoff."

Harvard-Walls notes that buyers who are testing sellers of attractive properties with low prices are being forced to rapidly recalibrate their expectations. "We've seen buyers coming in with a low-ball offer, seeing it quickly beaten, and then responding by paying the asking price or even above. Once they realise the depth of competition for good properties, it gives them the confidence to pay up."

Part of the reason for that, he believes, is that many buyers might have been holding fire for two or three years and are desperate to move: much pent-up demand pre-dates the lockdown period, stretching back to before the December General Election and the three years of Brexit-related uncertainty since the referendum in 2016.

Harvard-Walls recommends trying to move fast. "Agents are rushed off their feet, but we're not seeing the stock they are selling being replaced with new instructions: there could be a real squeeze come September."

Dell adds, however, that limited supply notwithstanding, there are clouds on the horizon: "There's still the risk of leaving the EU without a trade deal, taxes will have to go up to pay for the Covid response, Stamp Duty for foreign buyers is going up next April, while limits on international travel will keep many overseas buyers away. It's really hard to form a medium-term view on the market's direction."

How Hong Kong buyers are set to buck the trend

Restrictions on international travel may have temporarily put the squeeze on demand from most overseas buyers, but we're seeing strong interest from one segment of the international market: Hong Kong residents.

Ongoing political unrest in Hong Kong has increased the attraction of London to wealthy buyers from the city state, which will only have been reinforced by moves by Beijing to increase control over the Special Administrative Region, and the proposal by the British government in response to offer a path to UK citizenship for holders there of British National Overseas (BNOs) passports.

"This has opened the door to some 3 million Hong Kongers to move to the UK, many of whom are wealthy, and this will undoubtedly contribute to increased interest in London property from the region," says Dell.

Hong Kong has been wracked by protests against growing interference from Beijing in the running of the city, which was, under the terms of the 1985 Sino-British joint declaration, supposed to enjoy legal and political autonomy from mainland China for 50 years after the 1997 handover.

"Hong Kong residents have always been represented within London's prime market, given our shared history and educational ties," adds Dell. "Over the last 18 months or so, we've been seeing growing interest in property in London as wealthy Hong Kong residents make contingency plans should the situation worsen. We would expect that trend to now accelerate."

For buyers in Hong Kong dollars – which is pegged to the US dollar – UK property is particularly attractive. Since sterling's last peak in 2014, the Hong Kong dollar has risen 26.3% against the pound. "If we factor in the fall in capital values since 2014, then a Hong Kong Dollar buyer would be seeing a 40%-45% discount on London property," says Harvard-Walls.

London also benefits from much lower property taxes and considerably more space for a buyer's money: Hong Kong prime real estate is the most expensive in the world, averaging US$4,670 dollars per sq. ft. compared to under US$2,000 dollars per sq. ft. in London, according to figures from Savills.

Exactly how the route to residency offered to BNO passport holders will work has not been spelt out. But Harvard-Walls notes that an existing option is available to those who can demonstrate they are investing at least £2 million in the UK. "I would expect that wealthy Hong Kong residents would continue to use the investor visa route, which is a well-trodden path for moving to the UK."

Dell adds that Hong Kong buyers broadly fall into three camps. The first, ultra-high-net-worths, favour trophy assets, such as hotels or large homes or apartments. They have global wealth, and their activity is likely to be relatively unchanged by the recent political unrest.

The second category, high-net-worths, know London well and want to buy in prime areas – such as the very best streets in Mayfair, South Kensington and Knightsbridge. We would expect to see an uptick in activity from these buyers – especially from expats who may decide to bring forward plans to return home.

But perhaps the biggest change is likely from investors who, to date, have typically bought in newbuild developments, in areas like Canary Wharf, spend £300-800,000. "These buyers may struggle to get capital out if exchange control measures are brought in in Hong Kong, and – assuming that they are BNO holders – we are very likely to see more interest from them. They could, potentially, represent a significant addition to demand for this part of the market," she suggests.

Black Brick's insights over Zoom

The lockdown may have prevented physical conferences and briefings, but we're continuing to share our insights and network virtually by participating in industry webinars. The latest was the Family Office Real Estate Advisers' webinar, covering the impact of Covid-19 on UK real estate.

The latest FORA webinar features ground-level insight from Black Brick's Managing Partner Camilla Dell, Savills' head of prime resi Lindsay Cuthill, & MTG's head of real estate Sarah Conway. The three top names from the selling, buying and legal camps – gathered around a virtual round table this week to discuss some of the big questions we all want to know the answers to, including: Are we seeing a short-term summer boom or a long-term shift in the resi market? Who is buying – why, and what are they looking for? And what does the future hold?

Here's a key snippet from Dell: "The real estate industry has been able to go back to work for over a month now, and it's caught a lot of us by surprise in terms of how busy we've been. I think in terms of just activity, it has absolutely been a 'V-shaped' recovery.

“Our domestic client base, is where we are seeing the strongest demand at the moment. Where we have all been forced into this lockdown situation, spending huge amounts of time at home, it’s made many of us think about what’s important, what we prioritise, and it has forced a lot of buyers to ‘get on with it!.’

“We’re seeing them buying homes in the £1m – £6m price range, with a shift in demand away from apartments with no outside space, to houses with gardens. Areas that are benefitting from the lockdown include Hampstead and St John’s Wood – areas where there are decent houses and gardens, as well as south west London.”

The webinar can be viewed by clicking here.

Lockdown renegotiations

Although the easing of the lockdown is not, thus far, accompanied with widespread discounting, the economic uncertainty is forcing some sellers to take discounts that they would not have contemplated before the pandemic hit. Key to exploiting such opportunities is an in-depth knowledge of the seller’s position; some developers have been more focused on accessing liquidity from sales than maintaining their margins, for example.

“We always work hard to get the best possible terms for our clients, and the lockdown presented opportunities to renegotiate deals,” says Dell. “However, you need a good sense of when a seller is likely to move, and when you risk up-ending a deal by pushing too hard.”

We were able to renegotiate two particular transactions during the lockdown, one of which we set out in this month’s featured acquisitions.

Acquisition of the month: Long and Waterson, Shoreditch, E2 – £4,075,000

Our investment client was looking to invest £20 million into the London property market for a combination of rental yield and long-term capital appreciation. We advised the client to purchase in bulk – buying six units or more in a single transaction to qualify for commercial rates of stamp duty – but to diversify across a number of properties. The client had strict investment criteria: high-quality new build, easy to let, and able to achieve a gross yield of at least 4%. Finding suitable opportunities that met with all the criteria was a challenge in Central London.

We identified the boutique Long and Waterson development in Shoreditch, consisting of just 119 high-quality units, and the only premium new development in the immediate vicinity. The development is superbly located for this cosmopolitan enclave which is also on the doorstep of the City. The development also benefits from a 24-hour concierge, private gym, saunas and treatment room, extensive private gardens, a screening room and residents' lounge.

We negotiated the purchase of six apartments in January 2020 for a combined purchase price of £4,750,000 – an almost 16% discount from the original asking price and an estimated average net return on equity of 6.6% over a projected five-year holding period. However, right before we were due to exchange contracts, Covid-19 struck.

We decided to put the transaction on hold, carefully monitoring market conditions and, as we approached the end of lockdown, we successfully re-negotiated the purchase down to £4,075,000. We also de-risked the purchase by replacing one of the more expensive three-bedroom units with a one-bedroom apartment. We also negotiated a one-year rental guarantee for our client to take into account the higher risk rental environment due to the pandemic. At just over £1,000 per square ft, this offers a very good long-term investment for our client, in an exciting new growth area of London.

Managed sale of the month 1: Ambrose House, 19 Circus Road West, SW11 – £1,550,000

Possibly the best two bedroom apartment in the whole of Phase 1 of the ground-breaking Battersea Power Station development. 14th floor lateral with exceptional skyline views over the river Thames taking in all of London's major landmarks. Private residents facilities include 24 hr concierge, gym & leisure facilities, lounge & business facilities, screening room and the benefit of underground car parking. The Power Station is rapidly integrating as a go-to destination for Londoners and is arguably the most exciting regeneration project of the last 50 years.

For viewings, please contact Tom Kain at tom.kain@black-brick.com or on 07554335099.

Managed sale of the month 2: Ellesmere Court, Fulham Road, SW10 – £950,000

A fantastic, well-proportioned, 2 bedroom, 2 bathroom lateral apartment set on the second floor of a modern block in the heart of Chelsea. The flat also benefits from a day porter, a secure, underground parking space, a lift and is a short stroll to the wonderful shops and cafes on the Fulham Road .

For viewings, please contact Alex Oliver at alex.oliver@black-brick.com or on 07788551144.

We're ready when you are.
We would be delighted to hear from you to discuss your own property requirements and how we may be able to assist you. Should you wish to arrange for a non obligatory consultation, please contact us:

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