STRUTT & PARKER

Super-prime Property Journal

Six trends that are shaping London’s ultra-luxury market

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WELCOME

Home to more billionaires than any other city, London has become a global hub of super-prime property wealth. In the following pages, leading writers give their expert analysis of the six factors that will determine the future of the world's most exciting property market.

Andrew Scott, Partner and Head of London Residential, Strutt & Parker

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THE SURVIVAL OF THE RICHEST

London is facing stiff competition to attract the wealthiest property buyers. Charles Orton-Jones reports

LONDON IS ON a high. In the past 12 months, a third of global super-prime property deals took place in the capital. Prices at all levels are soaring. Financial website This is Money ran the headline: 'London overtakes New York as world's best city for property investment', and you can find similar stories in umpteen publications.

That's the narrative today. But can it last? London's strategy of wooing ultra-high-net-worth individuals (UHNWIs) has been noticed by other global cities. Copycats such as Dubai and Singapore may erode London's lead. There are political dangers. The Labour party has promised to introduce a mansion tax for properties valued at over £2 million, if they win the 2015 general election. There is a backlash against absentee owners who create ghost streets and apartment blocks. And there's the tricky 'zeitgeist' factor. Maybe Berlin is the place to be seen, or Madrid, or Rio.

Asset manager Fleming Family & Partners set out to discover what UHNWIs think will happen, not just over the next couple of years, but long term. Fleming's report, The World In 2043, canvassed 90 individuals and advisers representing $100 billion. The outcome could barely be more favourable for London. An overwhelming proportion, 91%, believe central London property will remain a suitable asset class for UHNWIs in the year 2043. A slightly larger 93% think the British capital will remain one of the top three financial centres, and more than half stated London will remain the leading global jurisdiction. The rivals? Fifty-nine per cent of respondents identified Singapore as a top three jurisdiction in 2043, while 28% named Hong Kong.

The virtues of London for super-prime investors are encouragingly price-independent. Buyers aren't solely hoping to hitch a ride on a bull market.

'London welcomes people,' says Andy Martin, Senior Partner, Strutt & Parker. 'It is friendly, safe and familiar. Even when you first come, you feel like you know the place. English is the first or second language of most people. And it is a city where you can make a home. There are very few other cities where you can live in the centre and have a garden.' Certainly not Tokyo or New York.

So what about the weaknesses? Nisha Singh, a Senior Associate in the Singapore office of law firm Berwin Leighton Paisner, regularly advises high-net-worth clients on London real estate investment. She admits London is still a powerful draw.

'Clients from Asia are attracted to the UK property market due to the strong long-term performance of the market and the relative weakness of sterling,' she explains. 'This is further fuelled by Asian countries introducing measures to cool their domestic markets, which are driving investors away.'

Favorable tax treatment for non-residents is a key consideration. The mounting tax changes for non-resident owners of UK residential property is causing concern for Asian investors – particularly the recent HMRC consultation document on the extension of capital gains tax to non-residents holding UK property.

'A survey of over 80 of our contacts in the wealth advisory community in Singapore and Hong Kong reveals these proposals are a real concern,' says Singh. 'Around 80% said that the proposed new Capital ▷

Gains Tax charge will have an impact on Asian investment into the UK real estate market.'

She adds one last – vital – observation: 'What will be interesting to see is whether the tax changes drive investors away from the UK residential market and towards commercial properties – shops, offices, hotels.'

There's the rub. London's super-prime competition might come not just from international rivals but from other London market segments. Buyers may switch to commercial investments. Or the younger super-rich may think it's more fun to live in mid-market areas, such as Clerkenwell, which is bursting with restaurants, or hipster heaven Shoreditch.

The issue of super-prime areas losing their buzz is already concerning politicians at City Hall. James Cleverly, Conservative party member for Bexley and Bromley, believes empty properties are partly to blame.

'Homes should be lived in,' he says. 'I'm happy that successful people from around the world are drawn to London and want to make it home, but I'm uncomfortable with London homes being bought and then left empty.'

He warns that the Conservatives – normally laissez-faire – are considering council tax property escalators for empty properties.

These political concerns are coming at a time when London is facing strong European competition to attract wealthy newcomers. Both Portugal and Greece are offering residency incentives to UHNWIs, while Madrid is offering residency to anyone buying a home worth more than €500,000.

London's status as the super-prime capital of the world may be undisputed right now. But as its rivals start to up their game, staying there will not be easy. ●

Charles Orton-Jones is PPA Business Journalist of the Year and a former Editor of EuroBusiness magazine

'London's competition might come not just from international rivals but from other London market segments'

2

THE DRAGON BUYER

Peter Buhlmann discovers why wealthy Chinese buyers are set to transform London's luxury property market

AS THEIR DOMESTIC economy slows, many wealthy Chinese have started to look abroad for growth. The Beijing-based Center for China and Globalization estimates there are currently around 50 million Chinese living overseas, with the most popular locations being the United States, Canada and Australia. They are now the top buyers of properties in Sydney, Hong Kong, Kuala Lumpur and Bangkok.

But for many, London is an increasingly attractive destination. The positive attitude of the UK government is smoothing the way. Chinese wishing to immigrate now have Tier 1 investment status, fast-tracking the immigration process for those investing more than £1 million. As a result, there are more Chinese applicants than Russians to the UK.

'Chinese buyers have long been investing in the London residential market, but the last few years have seen a rise in their numbers,' says Anthony Payne of property data company Lonres. 'For many Chinese buyers, prime central London is their first choice.'

The current strength of the yuan renminbi is also helping, making properties today around 8% cheaper in real terms than six years ago. With the anticipated arrival of London's first renminbi clearing bank, the stage is set for a surge of buyers from China.

'I think that we are just seeing the tip of the iceberg at the moment,' says Mark Dorman of Strutt & Parker's London Residential Development and Investment team. 'There are going to be bigger waves of buyers coming out of China over the next few years.'

THE KEY PLAYERS

The buyers make up two distinct types. The most established are very wealthy Chinese purchasers based in Hong Kong. 'These investors have become sophisticated buyers of London property,' explains Dorman. 'They visit regularly for business so they know the geography well. They are high-net-worth individuals looking simply to park money in London. The UK, and in particular Central London, offers these buyers comfort through the clarity of our legal system and general political stability.'

When it comes to location, their preference is for the prime areas around Hyde Park, such as Kensington, Mayfair and Belgravia. They buy properties for their own use and as an investment.

The second group are newly rich buyers from mainland China. Spurred on by slowing opportunities in China and a desire to diversify their investments, they are an emerging market and are just beginning to obtain an understanding of London. 'They are on a steep learning curve about the layout, the language and the law,' says Dorman.

For these buyers, education is a fundamental driver. A recent finding by the Hurun Report revealed 22% of Chinese high-net-worth individuals cited the UK as a first-choice destination to send their children abroad to study. For these buyers, new-build properties that offer security and low maintenance are more in line with the housing stock they are used to in China.

The problem for these investors is that the most sought-after areas of prime central London are fully developed with only the rarest opportunity for new-builds. As a result, they are having to look further afield.

ON THE MOVE

To cater for the expected growth in demand from the Far East, new high-rise building projects are now plentiful around Greater London. But buyers with a hazy picture of the city need to be on their guard.

'A lot of the buyers think London and central London are the same thing,' cautions Naomi Heaton, who is CEO of property investment company London Central Portfolio. 'They see the lovely pictures of Big Ben and the London Eye and think that's where they will be living, with no understanding about how vast London actually is. I've been to exhibitions where they were advertising properties at the end of the Underground line.'

More clued-up buyers are purchasing developments in near-prime neighbourhoods, such as Islington. Two-bedroom flats are the favourite option, providing safe accommodation for children studying as well as the opportunity to rent out a bedroom to offset education fees. Rental yields currently compare well with those in China.

For the moment, the outlook for London is positive. 'Chinese buyers are attracted by the geographical location of the UK,' says Anthony Payne of Lonres. 'With its proximity to Europe and ease of access to America, it is for many buyers the perfect location.' ●

Peter Buhlmann is Editor of Grant Thornton magazine

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OWNING A MASTERPIECE

Architectural icons are creating new super-prime hotspots across the city. Graham Norwood reports

SOMETHING STRANGE IS happening to the map of London's super-prime property. For decades, its borders were clearly marked by the 'golden postcodes' of SW1, SW3 and SW7.

But now, super-prime satellites have begun to appear across the city and in some very unexpected places. Penthouses in Battersea valued at £30 million and £50 million apartments in London Bridge – both south of the river and in previously overlooked neighbourhoods – are redefining how we think about London's most expensive homes.

The reason for the change is simple: it is architecture, not area, that is creating new super-prime hotspots. The opportunity to live in an iconic, globally recognised building is creating unique micro-markets that are completely detached from residential values in the surrounding postcodes. The Shard at London Bridge, designed by Renzo Piano, and the transformed Battersea Power Station, led by global architectural practices Gehry Partners and Foster + Partners, are attracting the world's wealthiest property buyers to parts of the city that Londoners only ever glanced at from a train.

'Both exemplify the opportunity for a startling development to improve the environment around them, to detach themselves from the surrounding property values, yet contribute to increasing the attractiveness of the area for everyone,' explains Charlie Willis of Strutt & Parker's Knightsbridge office.

The New London Architecture consultancy says that more than 230 towers are due to be completed right across London by 2020. The vast majority of these will be residential, creating a host of new super-prime micro-markets.

'A perfect example of this trend is The Nova, which is part of the regeneration of Victoria,' explains Willis. 'Although not in a traditional prime area, it is an iconic trophy building designed to appeal to very affluent purchasers.'

For architects, London is a 'must-build' location where they can enhance their reputations with prestigious projects that will attract the wealthiest and most influential buyers to new areas of the city.

'Design and details are the key elements to achieve this,' says Graham Stirk of London-based Rogers Stirk Harbour + Partners, an architectural practice that has worked on One Hyde Park and NEO Bankside in the capital, and Barcelona's regenerated Las Arenas. 'Contemporary design, to avoid a pastiche, makes a new building look distinctive for buyers.'

Although these buildings start as standalone icons, inevitably they have an impact on the surrounding areas. Robert Evans of Argent, developer of the vast 67-acre site in Kings Cross, is well aware of the link between striking architecture, affluent buyers and the creation of an attractive new neighbourhood.

'The area had almost Dickensian decay before this,' he explains. 'We've made it a thriving location, so the prestige of the homes is complemented by similar quality facilities.'

So where do London's new micro-markets leave London's traditional locations, such as Kensington, Chelsea and Knightsbridge? With strong demand for luxury properties, and supply that still remains restricted despite the best efforts of architects and developers, it seems that the new and the old are complementing, rather than competing with, each other.

The Royal Institution of Chartered Surveyors' report on the prime central London market agrees that 'pockets' of prime property are appearing outside traditional areas, but this is not adversely affecting the market as a whole. 'High demand from home and abroad is keeping all areas buoyant,' says the report. 'New neighbourhoods have not taken the shine, nor demand, off older addresses.'

In fact, the 'golden postcodes' might be about to regain the upper hand. The development of the Chelsea Barracks, a 12.8-acre site moments from Sloane Square, will bring elegant modern architecture right into the heart of one of London's most desirable neighbourhoods. It is a rare combination that the super-rich will find hard to resist. ●

Graham Norwood writes for the Telegraph, Financial Times and Observer

'Although these buildings start as standalone icons, inevitably they have an impact on the surrounding areas'

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RISK AND REWARD

Lawrie Holmes reveals the impact of volatility on London's globally connected property market

THERE IS A hidden factor driving the growth of London's super-prime property market. It is less obvious than the global appeal of living in a well-run, financially connected city, but just as important. And it can be summed up in one word: risk.

Political and financial instability have traditionally led to wealth being put into safe assets, such as gold. But the length and severity of global volatility over the past decade has encouraged ultra-high-net-worth individuals not only to hold those assets for longer, but also to have assets that can be owned outside of their countries and, if necessary, be used as a safe haven.

London property perfectly fits the bill. And there has been no shortage of takers. The Arab Spring and the civil war in Syria have prompted inflows of investment into London's super-prime market. They have been joined by a steady stream of wealthy buyers from Ukraine and Russia.

Marios Gregori, a real estate Partner at accountancy firm BDO, says that the UK's luxury residential market has seen a 22% increase in value in the past year.

'Overseas investors have been driving the market from what feels like an endless pot,' he says. 'My experience is that a lot of money has come from the Middle East and other politically unstable places. We've also seen a lot of Russian money in that time. All of it has been coming into a market where there is a lack of stock, so inevitably this is pushing up prices.'

With regional instability showing no signs of easing, London is likely to remain a refuge for global wealth.

Along with political uncertainty, there has been widespread financial volatility since 2007, which has persuaded investors to acquire high-end residential property in London. But that perception of financial risk is fading: the eurozone crisis has disappeared from the front pages and the US is winding down quantitative easing. So how will the reduction in global risk affect London's super-prime market?

It is possible that demand for high-end London homes will be reduced as investors look for better yields. But it remains a city where people want to do business, and there are widespread expectations among overseas buyers that it will be a buoyant market for the next few years. 'London remains attractive because it is not just seen as a place to invest,' explains Lulu Egerton, one of Strutt & Parker's London Residential Partners. 'It offers a uniquely appealing lifestyle to the globally rich.'

Professor Joe Nellis, director of the School of Management at Cranfield University, believes there is an even more fundamental reason underpinning the London market. 'There is simply a growth of millionaires looking to buy at the top of the range,' he says. It is a view supported by research from Citigroup showing that the number of Americans and Europeans with wealth of between \$100 million and \$199 million increased by 10,000 last year.

So, even as the financial landscape changes, it looks like London property is still going to be on the shopping list of the world's wealthiest buyers. ●

Lawrie Holmes, former Deputy Business Editor of the Sunday Telegraph, is Editor of Financial Management

'There are widespread expectations among overseas buyers that it will be a buoyant market for the next few years'

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FINDING A NEW LEVEL

As the wealthy increasingly target luxury apartments, Deirdre Hipwell asks, 'Is it all over for the London townhouse?'

THE SCALE AND grandeur of the London townhouse is so revered that developers have been building them for 300 years. Since George I ascended the throne in 1714, the townhouse has defined fashionable living among the wealthy in the capital.

However, while demand for London townhouses may have lasted centuries, surviving two world wars, recessions and changing tastes, it could be facing its greatest challenge yet – the luxury lateral flat.

In an era where the super-rich desire open-plan living in elegant apartments, with concierge services and on-site amenities, can a second-hand, five-storey townhouse compete? According to the property market analysts Lonres, 60% of the homes valued over £10 million sold last year in Mayfair, Knightsbridge and Belgravia were flats – that adds up to 21 apartments compared with just 13 houses.

'It is simply a penchant of the global rich that they love flats,' says Andrew Scott, Head of London Residential at Strutt & Parker. 'The "high set" as they call them in Sydney, and the wealthy in New York and Paris, all have flats and that taste has come to London.'

Luxury lateral flats have been a defining characteristic of prime residential development in the capital during the past decade. Nowhere is this trend more evident than at One Hyde Park in Knightsbridge, dubbed the world's most expensive block of flats with apartments selling for more than £6,500 per sq ft. The 86-flat scheme, by Candy & Candy, has been credited with 'recalibrating' values in the prime London market.

According to Chief Executive Nick Candy, lateral apartments are overwhelmingly the property of choice for the jet set.

'I think it depends on who you are as to whether you want a townhouse or a flat,' he says. 'In general, the international owners living in London just want a place that they can lock up and go rather than the headaches of dealing with a house and a garden, or a roof that leaks. In the past, there haven't been that many lateral flats – just these old Victorian blocks that do not have the services, like swimming pools, gyms and underground parking, that many of these buyers want. One Hyde Park has led the way in terms of services and is the only prime scheme in London linked to a hotel.' ▷

For buyers who have worldwide business interests, convenience and security are the main drivers of their real estate purchases – although there are some who take this to an extreme. One Middle Eastern entrepreneur bought a £10-million flat in Knightsbridge, owned it for five years, employed three full-time staff and had fresh flowers put in every room daily – yet never lived there.

Scott, who advised this Middle Eastern client, believes that rising capital values over the long term give global buyers confidence, esepcially those who come to London rarely, if at all.

'For the past 50 years, foreign buyers have preferred flats, and the most valuable properties are lateral flats,' he explains. 'But the market can be volatile and it relies on the continued unimaginable wealth of the minority.'

Despite the charms of lateral flats, the attractions of townhouses will continue to lure the rich who want their slice of a London terrace. Data shows that overall, houses rather than flats were last year's top choice in the neighbourhoods of Chelsea, Knightsbridge, Belgravia, South Kensington, West Brompton, Notting Hill and St John's Wood. Figures from Lonres reveal 42 houses of more than £10 million were sold in total across these districts last year, compared to 14 flats.

George Kyriacou, Managing Director of CIT Group, developed Chelsea Galleries on Kings Road, and took the decision to create three apartments at the front of the scheme and four townhouses at the back.

'We took advice from agents [on whether to develop the townhouses] and the advice was mixed,' he says. 'But we have found that the flats and townhouses have sold at an equal rate. It definitely helps if you have flats with all the amenities and concierge service, but this shows you that in the right location, the townhouse is definitely not dead.' ●

Deirdre Hipwell is Property Correspondent at The Times

'Despite the charms of lateral flats, the attractions of townhouses will continue to lure the rich who want a slice of a London terrace'

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THE NEXT GENERATION

Heather Farmbrough goes on a global search for the super-prime property buyers of the future

PROPERTY INVESTMENT IS a world market, driven by the international nature of wealth creation. Digital entrepreneurs, commodity traders and owners of natural resources are unlikely to stay at home. Their wealth, lifestyle and – increasingly – education, lead them to own homes in the most dynamic world cities.

It's a trend that is set to increase as wealth creation gathers pace. The 2013 Credit Suisse Global Wealth Report found that global wealth has more than doubled since 2000, reaching a new all-time high of $241 trillion. Economic growth is also becoming far more widespread. Next year, the IMF expects emerging and developing markets to grow by 5.6 per cent, with China growing by 7 per cent. But that doesn't put more established economies out of the picture. In the US, which already has over 5.2 million millionaires, there will be nearly half a million more by the end of this year.

According to Stephanie McMahon, who is Head of Research at Strutt & Parker, as wealth creation becomes more global, there will be more diversity in the property aspirations of the rich.

'With the volatility we are likely to experience around the world, caused by the rebalancing of the global economy, the sources of wealth and the types of property investors we see are likely to become even more varied,' she says.

Today's millionaires will be tomorrow's billionaires. So who will be joining the next generation of super-prime property buyers?

THE FEMALE ENTREPRENEUR

A growing number of millionaire property investors are women. In the US, the number of wealthy women is growing twice as fast as the number of wealthy men. According to Forbes magazine, almost half of American millionaires are now women and 48% of estates worth more than $5 million are controlled by women. At the moment, 60% of female millionaires have earned their own wealth – this percentage is expected to increase.

THE ACORNS

According to Oliver Williams from WealthInsight, a research company that specialises in the wealth sector, while the number of millionaires is growing rapidly in 'frontier markets' – economies that are at the very beginning of dynamic change, such as Vietnam and Myanmar – these are predominantly 'lower-tier' millionaires with a net worth of between $1million and $4 million. However, they have already developed a taste for London property, buying in central neighbourhoods that border the most sought-after addresses, such as Marlyebone and Fulham. As the more successful accumulate wealth, they will make the move to super-prime areas.

THE YOUNG AND GIFTED

New millionaires are likely to be young. This is especially so in Africa, says Oliver Williams, as a result of the continent's youthful population. 'The new millionaires coming out of emerging countries are normally entrepreneurs and therefore first-generation wealth,' he explains. 'This is particularly the case in fast-growing countries, such as Nigeria, where 63% of ultra-high-net-worth individuals are entrepreneurs.'

THE TROPHY SEEKERS

'You do get people buying super-prime property as a trophy asset,' observes Stephanie McMahon. "Owning your own building in Mayfair or Belgravia is a draw for certain buyers, particularly those with significant architecture.' Owners of these properties tend not to sell them, holding on to their buildings as a way of preserving wealth for the next generation.

THE TRADERS

The Credit Suisse Global Wealth Report pointed to 11 countries where superior growth is expected between now and 2060. These are: Bangladesh, China, Egypt, India, Indonesia, Iraq, Mongolia, Nigeria, the Philippines, Sri Lanka and Vietnam. These countries have young populations and are resource rich. Many of these, along with the fastest-growing countries in the ASEAN bloc, such as Thailand and Malaysia, are trading countries. Buying and selling is a way of life, and the same applies to property investment. These investors are happy to buy off-plan at property presentations in Singapore, Kuala Lumpur and Hong Kong. They are unlikely to be sentimental about bricks and mortar: if a discrepancy occurs in the market, they trade up or out. ●

Heather Farmbrough is Editor of Trust magazine

LIVING IN STYLE

London is home to some of the world's most desirable property. Here is a small selection of the luxurious residences offered by Strutt & Parker

DRAYTON GARDENS, CHELSEA SW10
A truly magnificent, extensively refurbished apartment, extending over 2,200 sq ft, in one of the smartest buildings on Drayton Gardens.
£5,500,000. Leasehold plus a share of freehold. Contact 020 7373 1010

PARKGATE HOUSE, BATTERSEA SW11
A wonderful apartment, set behind the original facade of The Old Bakery, offering well-planned, contemporary living with three outdoor terraces and two car parking spaces.
£6,500,000. Leasehold. Contact 020 7225 3866

PALACE GATE, KENSINGTON, W8
An outstanding four-bedroom maisonette on the top two floors (with direct lift access) and a wonderful terrace. Ideally situated just south of Kensington Gardens.
£4,750,000. Share of freehold. Contact 020 7938 3666

BELGRAVE PLACE, BELGRAVIA, SW1
A rare, first-floor lateral apartment converted across two period buildings in a prime Belgravia location, with three bedrooms and a resident porter.
£10,950,000. Leasehold. Contact 020 7235 9959

ROYAL AVENUE, CHELSEA, SW3
A beautifully presented, Grade II Listed, five-bedroom house extending to 3,000 sq ft in this much sought-after position at the southern end of this prestigious address.
£6,950,000. Freehold. Contact 020 7225 3866

PEMBRIDGE VILLAS, NOTTING HILL W11
An outstanding, semi-detached, six/seven-bedroom house with excellent entertaining space, grand proportions and a beautiful, southeast-facing garden.
£10,000,000. Freehold. Contact 020 7221 1111

INTELLIGENCE

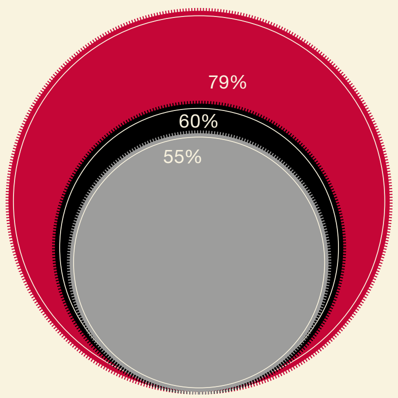
London's property market is constantly changing. We have taken a snapshot of the capital's most valuable residential areas to reveal who is buying and who is selling.

RESIDENTIAL AREAS

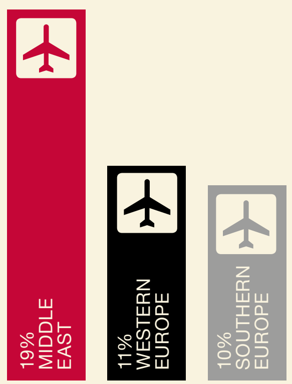
- Knightsbridge and Belgravia
- Notting Hill and Fulham
- Kensington, Chelsea and West Chelsea

LONDON BUYERS

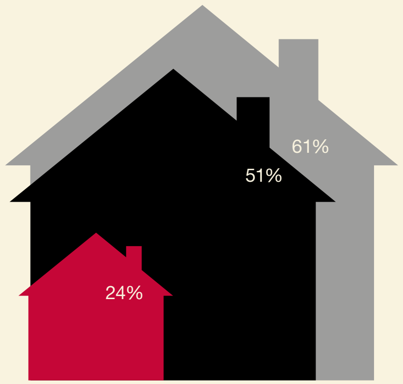
Cash buyers



Top buyers from outside the UK



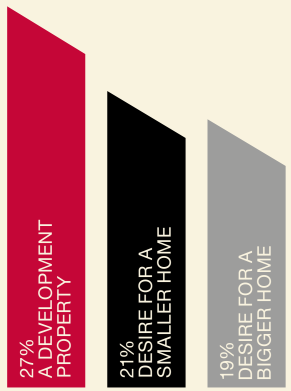
Buying a primary residence



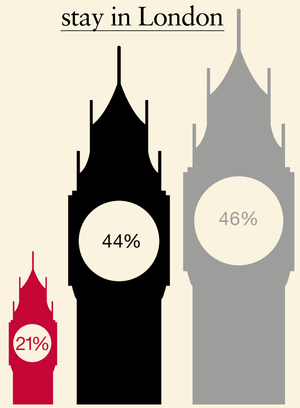
LONDON SELLERS

Most popular profession for sellers

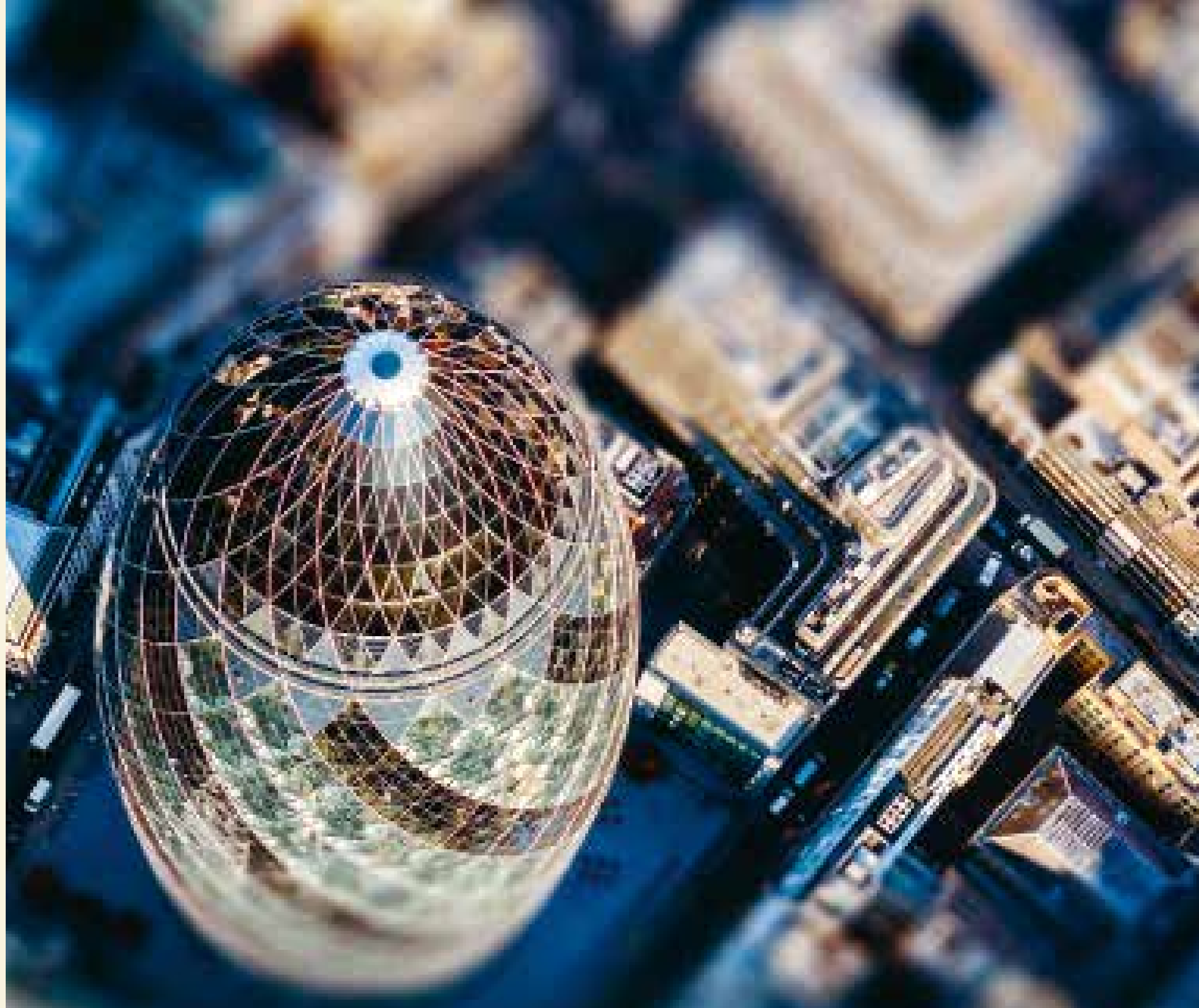
Top reason for selling



Sellers who intend to stay in London



SOURCE: STRUTT & PARKER RESEARCH



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