CoStar Column: A Historical, Rather Than Hysterical, Perspective of Prime Central London Is Needed

Alessandra de Paiva Raposo, Founder and Managing Director of DPR, Reflects on London, With Perspective for New York and Toronto

With the focus on rather gloomy news about London's Prime Central London Market, it would be forgiven for thinking the worst. However, the residential picture is far more nuanced than this, and a historical perspective can help to bring some clarity – and a little more positivity – to the picture. It also helps put London in context with markets such as New York, Toronto and Hong Kong.

According to property data provider LonRes, on average, prices in Prime Central London, known as the PCL, have decreased 14% over the four years from its 2014 peak. We can mainly attribute this decline to the Stamp Duty changes that reduced taxes on residential property purchases implemented in 2014 by then Chancellor, George Osborne, combined with the uncertainty caused by the Brexit referendum result in June 2016 and its ongoing impact on the United Kingdom.

However, looking back a little further, we are reminded that prices in the PCL market rose by 90% in five years, from the trough of 2009 to the peak of 2014. This comparison of past conditions and the current market helps provide some perspective to today’s negativity. It's also important because residential property provides a counterpoint to the commercial real estate market.

During the financial crisis that hit the PCL property market in 2008, prices plunged 21% within one year. But, in its wake, a combination of low interest rates and quantitative easing made alternative assets such as prime property particularly attractive to investors. Comparing the peak of 2008 to the peak of 2014 and the market’s recovery, average prices were 50% higher.

Going even further back to the early 1990s downturn in London and the South East, prices dropped by 20.7% in just over four years. Stories abound of owners just posting the property’s key to the lender as they threw in the towel. In 2017, only 28% of homes were mortgaged, compared to 42% in 1991, and far tougher lending criteria means a repeat of this scenario is highly unlikely.

Furthermore, there have been some positive PCL market developments. The demand for trophy assets, specifically those above £15 million (19.05 million U.S. dollars), increased 43% between 2017 and 2018, according to Savills. In part, this has been fueled by the dip in sterling following the referendum, which in turn has boosted demand from international buyers looking to capitalise on the weak pound. Sellers are becoming increasingly realistic about pricing.

The allure of owning a property in prime central London also remains strong. For example, earlier this year Ken Griffin, billionaire founder of the Chicago-based hedge fund Citadel, bought No. 3 Carlton Gardens. While it may have been purchased below asking price, the sale of this 20,000 square-foot Palladian masterpiece on Pall Mall still fetched a staggering £4,750 per square foot, highlighting the ongoing demand for top-end trophy properties.

On a worldwide level, we are not alone in our difficulties - other global city markets are also facing challenges. Hong Kong’s residential market has encountered turbulence, with a 14% fall in the Hang Seng Index in 2018, combined with an interest rate rise having a detrimental impact on demand. A foreign buyer tax has been implemented in Vancouver and Toronto, while further measures are being taken in Vancouver to limit speculation and price rises. New York’s property market has had an annual price reduction of 5% and the city will be introducing a new Mansion Tax, affecting both residents and non-residents.

London’s prime central residential market is the world’s second-costliest on a square foot basis, behind only Hong Kong, and just ahead of New York, according to the latest data from Knight Frank.

The United Kingdom's obsession with Brexit has served to exaggerate the negative perceptions around the PCL market. However, as it stands, the prime central London market will continue to remain an attractive destination for both domestic and international high net worth individuals. But, in weighing up the market, a more rational and relative approach – both in terms of time and past peaks and downturns, and in space, namely the travails of other competing global city markets – needs to be taken.

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