RESIDENTIAL RESEARCH

2009/10

THE SOUTH BANK REVIEW

Knight Frank

HIGHLIGHTS

- More than one year on from the Lehman collapse and the global financial meltdown that followed, the prime central London residential market is in a much healthier state than was initially thought possible.
- Summer and autumn 2009 saw buyer numbers rise by 35%, the volume of available property fell back noticeably, by 34%, and sales volumes rose significantly (albeit from a low base). Prices rose by 8% over the same period, clawing back some of their losses from 2008 – although by September prices were still 18% below their 2008 peak level.
- The South Bank's position as an established part of central London's prime market was cemented during 2009 – with price growth of 7% between March and September.
- In this report we examine the turnaround seen in the London housing market over the past year. We also take a close look at how the South Bank market has fared during one of the most tumultuous economic periods in living memory.

LONDON FINDS ITSELF BETTER PLACED THAN MANY 'WORLD-CITIES' TO EMERGE FROM THE CURRENT ECONOMIC DIFFICULTIES AND RETAIN ITS INFLUENCE AND RELATIVE PERFORMANCE.

London's economy

The recovery in the housing market in summer 2009 started from a low base, which tends to flatter the figures somewhat. The same factor can be seen in the UK economy – very poor GDP results earlier this year almost guaranteed a sharp upward bounce in the second half of the year. Despite these comments, economists are becoming steadily more positive regarding the UK's economic prospects, with average forecasts for 2010 estimating GDP growth will rise from 0.3% to 1.2%.

So far, London has performed better than the UK as a whole through the recession. London's economy contracted at a far slower rate through the first half of 2009, compared to the UK as a whole. Employment levels have also fallen more slowly in London.

Focussing on the central London economy, the employment situation in the financial services sector is at last beginning to stabilise, according to data from Morgan McKinley, the specialist City recruiter. Job vacancies in the City fell sharply last year, however, there has been a slight upturn in the number of vacancies since the early summer. Salaries in the City, again according to Morgan McKinley, are at last appearing to hold – and are down only 1% over the past year.

We noted in our 2008/09 South Bank report that London finds itself better placed than many 'world-cities' to emerge from the current economic difficulties and retain its influence and relative performance.

Our experience of the London property market is that the diversity of employment can be understated by the very high profile enjoyed by the City and the financial services sector. The share of prime market buyers from the financial services sector hit a peak of 40% in late 2007, before falling to 28% in early 2009. The resulting gap in the market was quickly filled by buyers from the media, creative and legal sectors, the arts and entertainment and other varying professions.

Despite the job losses that have accompanied the downturn, continued inward investment provides confidence that London will remain Europe's main business centre and see a relatively rapid return to growth in future years.

In September 2009 London was once again rated the top global financial centre in a new survey. The Global Financial Centres Index of international financial professionals shows that despite the current tough economic environment London is still ahead of New York, with Hong Kong, Singapore and Zurich a considerable distance behind.

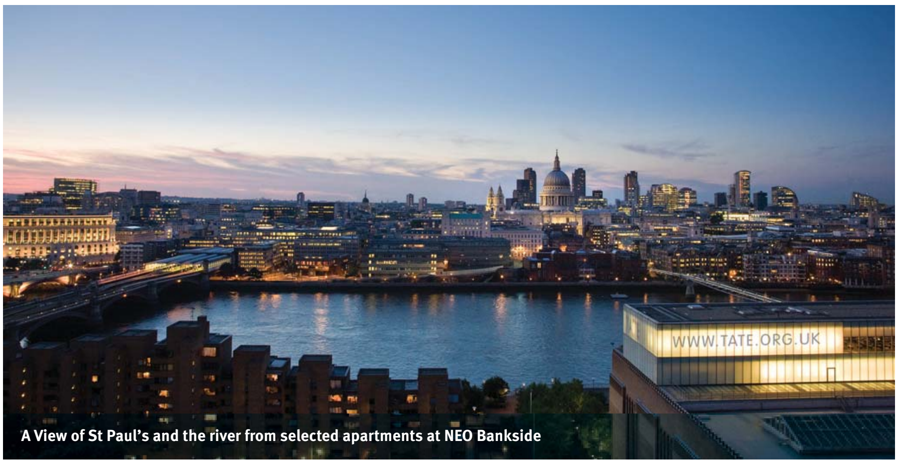
With the worst of the economic turmoil now over, London is well positioned to take advantage of the improving economic conditions by using the benefits of an internationally recognised language and its commercial law framework, as well as its convenient time-zone, to act as a bridge between various centres.

Data from Think London, the foreign direct investment agency for London, shows that the number of companies expanding or setting up their operations in the UK's capital during the first six months of the current financial year already outstrips the 12 projects reported for the whole of 2008/09. Japan represents the largest source of jobs created by Asian direct investment in London, accounting for a total of more than 2,800 jobs over the past five years.

The London residential market – a remarkable recovery

The rude health of the central London housing market continues to surprise many observers. The 1.3% price rise in September is the sixth month in a row we have experienced positive price growth. Prices are now only 8.9% lower than they were 12 months ago.

However, prices are still 18% below their March 2008 peak, despite recent growth. The still sizeable price discount from the top of the market is certainly aiding growing demand. The key drivers of price growth remain: tight supply of property, very low interest rates for cash-rich buyers and strong overseas demand for central London property.



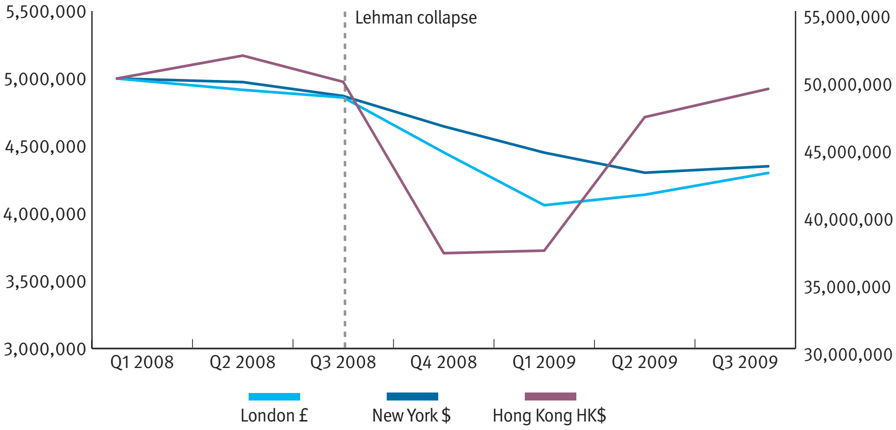
A View of St Paul's and the river from selected apartments at NEO Bankside

Figure 1

Global market recovery post-Lehman collapse

Price movement of an example prime property

(LHS – London £ / New York $) **(RHS – Hong Kong HK$)**



Source: Knight Frank

Strong demand and weak supply

The volume of property on the market in September was down nearly 30% year-on-year. In fact, compared with September 2007, the volume of stock was down by almost 50%. This tight supply has been set against relatively strong demand, with viewing levels and the volume of new applicants noticeably higher – up 80% and 30% respectively, again year-on-year.

The number of sales taking place in September was 70% higher than the same month in 2008, and with the number of new properties coming to the market in October being similarly restricted we can expect tight supply to remain a feature of the market for the remainder of 2009 and early 2010.

Our view is that price rises are sustainable in the short to medium-term in London – the weight of demand has proved to be more than a temporary phenomenon and, set against continuing tight supply, will act to support prices.

Cash-rich UK and overseas buyers

There is no doubt that the ability of cash-rich buyers, those with deposits of 40% or more, to secure ultra-low rates of funding has aided the market. Our own experience is that the average deposit being paid by buyers and the number of cash purchases is rising. UK buyers have been especially keen to take advantage of low mortgage rate costs.

One factor that aided the recovery of demand in central London was the weakness of Sterling around the start of the year. It meant that by March prices of central London property had fallen almost 50% in US Dollar terms.

Despite some strengthening of Sterling between March and September, and the reversal of part of this currency benefit, overseas buyers have retained their share of the market. If we consider the £2.5m+ market, which excludes the UK-dominated 'entry-level prime' market, the international buyer share of the market peaked in Q2 2008, at 68% – as the late super-prime boom worked its way through. By the end of last year – following the Lehman's scare – this share had dipped to below 40%. This year the share has been building steadily to hit over 50% through August and September.

The biggest change in the actual nationalities buying has been their spread – which keeps widening year-on-year. In 2009 significant demand has been seen from: South Africa, Nigeria, Kazakhstan, India, Jordan and UAE. The Chinese are just beginning to make their presence felt – but Russians at 12% of all foreign buyers still make up a large proportion.

The key buyers however this year, and this trend has not slowed despite the weakening Euro, have been the traditional European buyers – especially Italy (representing 16% of all foreign buyers), France (8%) and Germany (4%).

The South Bank focus

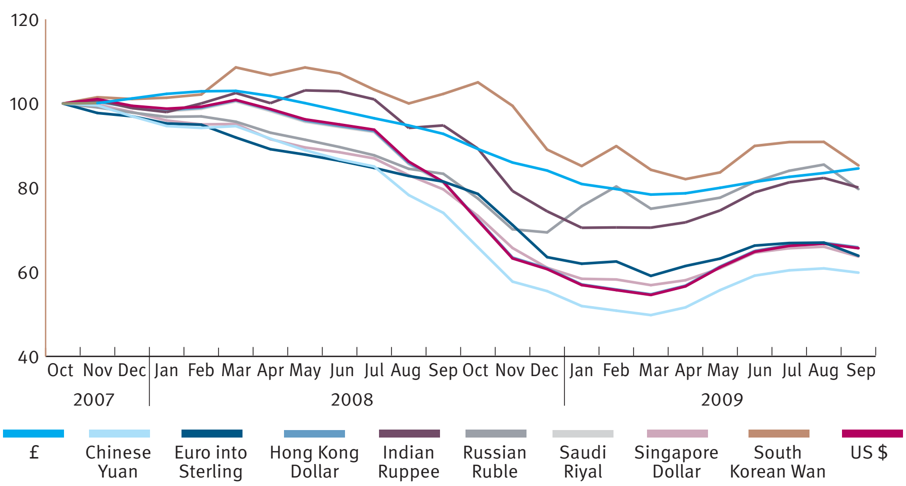
New environment

While areas of Belgravia, Knightsbridge and Chelsea have a high density of period

Figure 2

Weak £ makes London cheaper

Prime London pricing allowing for currency fluctuations, index (100.0 = Oct 2007)



Source: Knight Frank, Bank of England

Shakespeare's Globe

properties, the emergence of the city living concept and a new generation of wealth over the past decade has changed the profile of both 'typical' prime properties and 'typical' prime purchasers.

While many people are attracted to the lifestyle associated with the more traditional areas of prime London, the international influence has brought a more continental lifestyle to the Capital. These purchasers seek homes in cultural districts that are close to work, with good transport links, and have a broad range of amenities and are therefore suited to locations such as London's South Bank.

Just a stone's throw away from the centre of London, the South Bank extends from Westminster Bridge and runs east in a tight zone towards Tower Bridge, encompassing Shad Thames and Butler's Wharf, and has rapidly become an established prime London location. Schemes along the riverside will benefit from uninterrupted front-on views over the Thames, the City or Parliament – aspects that are highly sought after.

There is a combination of factors that instill confidence in this location. Tate Modern is arguably the world's leading contemporary cultural facility and provides the area with international recognition. This will further improve following the completion of the planned Herzog & de Meuron extension.

OUR RESEARCH POINTS TO A MERE 1,500 UNITS UNDER CONSTRUCTION IN PRIME LONDON AREAS THAT ARE LIKELY TO BE DELIVERED IN THE SHORT-TERM.

Supply

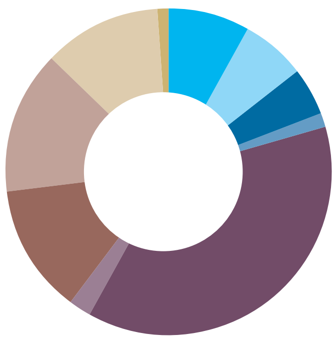
The amount of new stock coming into the market from developments in central London is incredibly constrained. Our research points to a mere 1,500 units under construction in prime London areas that are likely to be delivered in the short-term. This low supply has resulted in developers and purchasers alike seeking new 'up-and-coming' prime areas of London including the South Bank.

In terms of the South Bank itself, the number of new units actually under-construction in late 2009 totalled barely 375.

Sir Norman Foster's Millennium Bridge provides quick access into the City, which, together with a river view, complements the contemporary feel of the area. In addition, the area has a host of amenities including the Globe Theatre, The Royal Festival Hall and Borough Market.

To date, there has been a lack of really high-quality stock available for purchasers on the South Bank and for this reason price growth has been more subdued during the recent period of super-rich purchase activity.

Figure 3
An international market
Nationalities and regions for overseas Prime Central London buyers, 2009



African	8.2%
Asia	6.5%
Australasia	4.5%
CIS	1.6%
Europe	37.3%
India	2.3%
Middle East	12.8%
North America	14.2%
Russia	11.7%
South America	0.9%

Source: Knight Frank Residential Research

Of the limited quality stock, there have been some key buildings and developments that have highlighted the area's potential including Butler's Wharf in Shad Thames and Bankside Lofts on Hopton Street. At the height of the market, price growth for units in these schemes peaked at 25% per annum, which proves that the area can display performance in the same league as more established prime areas. As a direct result of this strong demand and price performance, Knight Frank has included the South Bank in its Prime Central London Residential Index.

Better by design

One of the clearest trends over recent years in the core prime central London market, and one that is being replicated in the South Bank, is the ability of developers to lead pricing trends for architect-designed, high quality developments – often ahead of the established homes' market. In New York, for example, the cachet of bespoke properties translates to sale premiums upwards of $400-$1,000 per sq ft.

Indeed, there is compelling evidence to suggest that single landmark developments are able to outperform their local residential market. These developments include One Hyde Park in Knightsbridge and Montevetro in Battersea, both by Richard Rogers, 21 Chesham Place by Foster and Partners in Belgravia and 173/176 Perry Street by Richard Meier in Greenwich Village, New York.

London's South Bank is filling a void in the residential market. Central London is rich in period properties but relatively poor compared to New York and other prime cities in the supply of high quality, well designed apartments. The South Bank in particular offers the scope for more development of this type in the future – aided by a forward-thinking local authority that is actively encouraging high quality developments. The consolidation of this market over the next few years will see it continue to grow as an urban cultural quarter offering a lifestyle that cannot be found anywhere else in London.

LONDON'S SOUTH BANK IS FILLING A VOID IN THE RESIDENTIAL MARKET. CENTRAL LONDON IS RICH IN PERIOD PROPERTIES BUT RELATIVELY POOR COMPARED TO NEW YORK AND OTHER PRIME CITIES IN THE SUPPLY OF HIGH QUALITY, WELL DESIGNED APARTMENTS.

Case study development – NEO Bankside

The most current example of a successful development in the South Bank is NEO Bankside, a joint development between Grosvenor and Native Land. The scheme, which will consist of 197 apartments in 4 pavilions, ranging between 12 and 24 storeys in height, is designed by the internationally acclaimed Rogers Stirk Harbour + Partners (formerly Richard Rogers Partnership). Work has started on site and the first phase of completion is due in late 2010. The development will be launched in the spring of 2010.

The building is positioned in arguably the highest-profile location along the South Bank, next to Tate Modern and on the same stretch as the Globe Theatre. Its contemporary design is a fitting addition to the London skyline between Southwark and Blackfriars Bridge offering some views of St Paul's Cathedral and iconic city offices including Tower 42 and Swiss Re's "Gherkin" at 30 St Mary's Axe.

Despite the credit crunch, NEO Bankside has generated considerable interest from both local and international markets for two primary reasons. Firstly, due to its impressive architectural design and high specification and secondly, due to competitive pricing and attractive payment terms.

NEO Bankside

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Knight Frank has a wide field of expertise, with over 30 specialised areas across the commercial and residential parts of our business. We have local knowledge and resources throughout our global network, giving us a strong advantage as one of a few firms able to provide a highly specialised service portfolio worldwide.

In the UK, Knight Frank is both the recognised leader in the premium residential market and a major force in commercial property. The firm also continues to expand all aspects of its property business, including commercial and mixed use development consultancy, urban regeneration and key market sectors such as healthcare.

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