



WETHERELL MAYFAIR

MARKET REPORT

SUMMER 2014

THE SUB-£5 MILLION MARKET

- £1.17 billion – total value of the 612 sub-£5 million sales in Mayfair since 1 January 2009 (non-lease length adjusted)
- £2.97 million – average selling price of a property (lease length adjusted) over last 12 months
- £2,076psf – average £psf of a sub-£5 million property over the last 12 months (£2,370 lease length adjusted)
- 82% of all property sales in Mayfair over the last 12 months £5 million or below
- 22% fewer apartments sold sub-£5 million over last 12 months than in same period in 2009/2010



BRINGING RESIDENTIAL LIFE BACK TO MAYFAIR

THE SUB-£5 MILLION MARKET

While commentators have marvelled over high-value sales in Mayfair (sales over £10 million in the last five years have totalled £422.3 million), the sub-£5 million property market within this elite district has largely been overlooked. This sector has netted over twice the value of the top end of the market, with sales of £5 million and below totalling £1.17 billion since the 1st of January 2009. Over the last five years the sub-£5 million market in Mayfair has dominated property sales, accounting for 83% of all sales across the area since the beginning of 2009 (Lonres).

This newly commissioned report examines in depth this market since the downturn of 2009, utilising a thorough database of property transactions. As much of the Mayfair area consists of the historic estates of Grosvenor, Burlington, Curzon, Albermarle and Berkeley, a high percentage of residential property is leasehold. This report will also examine the impact of lease lengths on overall values.

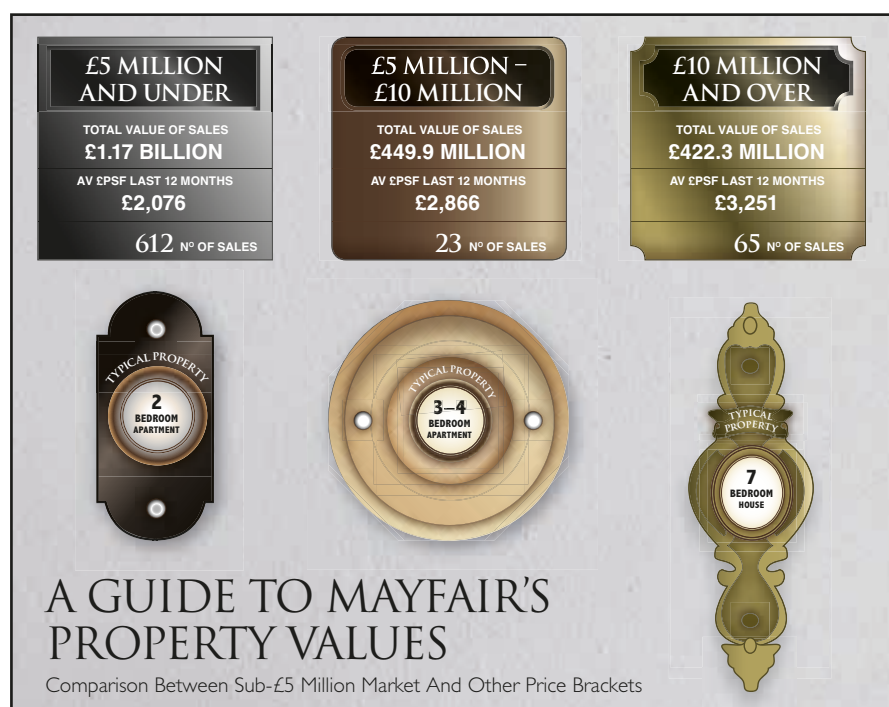
TRANSACTION LEVELS AND VALUES

Transaction levels over the past five years at the sub-£5 million market have fluctuated. There were 33% more properties sold at £5 million or below across Mayfair in 2013 than in 2012, but levels appear to be falling in 2014. In the first five months of 2014, 35 properties have been sold within this price bracket, compared with 50 in the same period in 2013. This represents the lowest level of sales since 2009. Over the last 12 months, 22% fewer apartments were sold sub-£5 million than in the same period in 2009/2010 at the height of the property downturn.

The average price paid for a sub-£5 million property over the last 12 months was £2.37 million, 20% higher than in the previous 12 months, with an average £psf of £2,076. This was 23% higher than for the same period in 2012/2013. Overall since 2009/10, average £psf values have increased by 65%. When lease lengths are taken into consideration, and properties are converted to their freehold value, the average price paid over the last 12 months was £2.97 million (£2,370psf), increases of 30% and 25% respectively over the same period in 2012/13.

Apartments, unsurprisingly, account for the majority of sales – 92% over the last five years and 89% so far in 2014. The majority of these are sold leasehold, reflecting the landed estates that characterise the Mayfair residential market. Over the last 12 months the average price paid for an apartment was £2.19 million, with an average £psf of £2,082, a rise of 14% and 22% respectively on the preceding 12 months. This clearly demonstrates the demand and competition that exists for properties within this price bracket.

Only 48 houses have been sold below £5 million across Mayfair over the last five years. Of these, 69% have been freehold. The average selling prices of these properties over the last five years is £3.2 million, with an average of 2,340 sq ft of residential space.



Source: Lonres, Land Registry, Wetherell and Dataloft. Total value of sales/number of sales from 2009 – 2014. Average £PSF Data Last 12 Months (June 2013 – May 2014).

METHODOLOGY

Analysis in this report is based on a database of Mayfair (WIK, WIJ and WIS) sales since the 1st of January 2009. It utilises the Lonres dataset, supplemented with additional sales documented at the Land Registry. Since the 1st of January 2009, 612 property sales have taken place across Mayfair on or below £5 million. Lonres data includes £psf information and also provides information regarding lease lengths. Lease-length information is known for 63% of the overall dataset.

Dataset	Sales included since January 1 2009	% of total dataset	Lease-length information known
Lonres	483	78.9%	80.0%
Land Registry	129	21.1%	0%
Total	612		63.0%

WHAT CAN YOU PURCHASE FOR YOUR MONEY?

The average size of a sub-£5 million property over the last 12 months was 1,149 sq ft, a reduction of 4% on a year earlier and 19% compared with 2009/10, when the average size of a property was 1,424 sq ft. Apartments sold for sub-£5 million are now 15% smaller than they were in 2009/10, while houses are 24% smaller. In the last 12 months, 23% of house sales were for one or two bedroom properties, with two bedroom properties commanding

over double the square footage of single-bedroom properties at 1,592 sq ft. Apartment sales indicate a more equal split across apartment types, although there has been a shift in the size of properties purchased at sub-£5 million in the last five years. Two bedroom apartments have dominated transaction sales over the last five years, accounting in the past 12 months for 42% of all apartment sales at under £5 million. Three+ bedroom apartments

accounted for only 15% of transactions in the last 12 months, compared with 23% a year previously. Many three+ bedroom flats now sell above the £5 million threshold – 49% of all flat sales in the last 12 months. Conversely, the proportion of sales that are studio apartments has risen over the last year. Although these properties tend to be smaller in size than in previous years, they attract a premium due to their prestigious locations.

TABLE 2: AN OVERVIEW OF APARTMENT SALES AT THE SUB-£5 MILLION BRACKET

		NUMBER OF BEDROOMS			
		0	1	2	3+
% Sales	2013/14	21%	22%	42%	15%
	2012/13	13%	21%	43%	23%
	2009/10	25%	18%	32%	26%
Average sq ft	2013/14	460	708	1147	1658
Average £psf	2013/14	2330	2043	2106	2021
Average sale price (lease adjusted)	2013/14	£1,050,000	£1,616,271	£2,709,237	£3,730,932

SOLD BY WETHERELL



UPPER GROSVENOR ST.

Two bedroom duplex apartment in portered block.

1,830 Sq Ft - £4.5M



PARK STREET

Three bedroom double aspect flat with panoramic roof terrace.

1,651 Sq Ft - £3.5M



CURZON STREET

Three bedroom ground and lower ground floor flat with parking.

2,142 Sq Ft - £4.25M



GROSVENOR SQUARE

Unmodernised three bedroom flat on a 48 year lease.

1,905 Sq Ft - £5M



SOUTH AUDLEY ST.

Immaculate two bedroom duplex by Harry's Bar.

1,130 Sq Ft - £2.35M



ARE THERE PINCH POINTS AT A PRICE LEVEL?

In terms of sales at different price levels, 34% of all apartment sales since January 2009 have been between £1 million and £2 million, with the price bracket of £750k–£3 million accounting for 65% of all apartment sales. Apartments that sold for between £2 million and £3 million boasted £psf values 22% higher than apartments selling for £1–£2 million, with values of £1,865psf and £1,525psf respectively. There is most disparity in £psf valuations at the lower end of the market. Only 8% of sales were for properties below £500k, with an average £psf of £794, while 9% of sales occurred between £750k and £1 million with £psf of £1,187psf, some 49% higher.

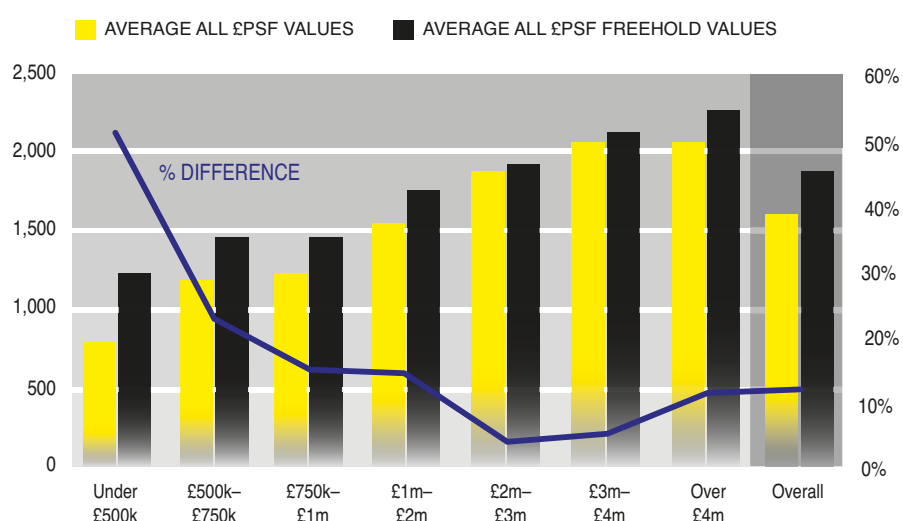
Comparatively, at the top end of the market there is little discernible difference in sales or average £psf values. Apartments that sold for £2–£3 million accounted for 12% of all sales and achieved an average value of £2,006psf, while those selling above £4 million accounted for 5% of sales, with an average £2,008psf.

When values are adjusted to consider the impact of lease length (see right), it is clear that those properties priced at the lower end of the market are most likely to have the shortest lease length remaining, as the uplift possible in £psf values here is

considerably more than at other points in the market. The upper middle of the market (£2–£4 million) represents those properties

that generally hold a longer lease length. Therefore, possible uplifts in values are less discernible here.

COMPARISON £PSF VALUES FOR FLAT SALES BASED ON SOLD PRICE, COMPARED TO £PSF VALUES BASED ON FREEHOLD VALUES



Source: *Lonres and Land Registry*

N.B. Average £psf values based on *Lonres and Land Registry* sales.

Freehold £psf values based on *Lonres* sales and application of a leasehold reform calculator.



CURZON STREET

Refurbished two bedroom flat sold within a week.

842 Sq Ft - £1.985M



DAVIES STREET

Art Deco double aspect two bedroom flat with 43 year lease

1,604 Sq Ft - £4.4M



BALFOUR PLACE

Traditional garden flat in Mayfair Village.

1,436 Sq Ft - £3.75M



PARK STREET

Raised ground floor apartment sold as rental investment.

807 Sq Ft - £1.95M



MOUNT STREET

Refurbished two bedroom flat with views towards Berkeley Square.

1,702 Sq Ft - £3.5M



THE IMPORTANCE OF LEASE LENGTH

As with most of prime central London, virtually all apartments are sold with a remaining lease length attached to the purchase. The length remaining on the lease is becoming of financial importance when purchasers are considering property investments. Purchasers must have owned a property for a minimum of two years before extending the lease and the trigger point for lease extensions is 80 years. If a lease falls below 80 years, the cost of extending the lease is considerably more favourable to the freeholder. Purchasers are required to compensate the freeholder both for loss of reversion and for 'marriage value' (half the increase in the leases value that results in the lease extension).

The table below shows indicative costs of lease extensions based on the average

selling price of properties across Mayfair since 2009, and also the freehold values of properties within different lease length bands. It is clear that for those properties with 100+ years left on the lease, extending sooner rather than waiting until the lease length has reduced to 80 years has considerable cost benefits. For those properties with lease lengths of between 75 and 99 years, the price differential between sales value and freehold value is minimal. In order to gain the benefit of the financial uplift following extension, leases should be extended so they have more than 80 years remaining. In the case of properties with remaining lease lengths of 50–74 years, the freehold value offers a 25% premium over the selling price. Even with 50 years on the lease remaining, discerning purchasers stand to not lose on their investment.

If a remaining lease is less than 50 years, it is more difficult to calculate the costs of obtaining a lease extension. With a lease length under 20 years, it is common for the freeholder to maintain the lease at this level, ensuring they remain the owner of the property. Across Mayfair, many residential premises are owned by large estates such as Grosvenor and in these areas average lease lengths are often below 75 years. For cash buyers, purchasing properties with short lease lengths can be a beneficial option, allowing residence in one of the most prestigious addresses in the world without tying up considerable capital assets.

TABLE 3: COMPARISON OF AVERAGE SALES AND FREEHOLD VALUES OF PROPERTIES WITH DIFFERENT LEASES REMAINING AND AVERAGE COSTS OF LEASE EXTENSIONS (INCLUDING 'MARRIAGE VALUE') FOR SUCH PROPERTIES

AVERAGE LEASE LENGTH REMAINING			
	100+ years	75–99 years	50–74 years
Average sales value	£2.4 million	£2.07 million	£1.7 million
Average freehold value	£2.4 million	£2.14 million	£2.13 million
Value difference	£0	£70,000	£430,000
Time left on lease (indicative costs to extend)			
100 years	£18,000–£23,000		
80 years		£39,000–£47,000	
75 years	£148,000–£154,000	£132,000–£137,000	£139,000–£144,000
60 years			£252,000–£260,000
50 years	£396,000–£408,000		£352,000–£363,000

Source: Lonres, Leasehold advisory service. N.B. Calculations assume annual ground rent of £250pa.



CONCLUSION: CAN YOU PURCHASE A BARGAIN IN MAYFAIR?

As with any property sale, discerning purchasers are always on the lookout for the best investments. In the elite and fashionable residential areas such as Mayfair, 'bargain' properties are few and far between. Purchasing any property with the option to extend or re-fit is one way of aiming to secure a better return on investment, as is purchasing a property where the cost of extending a lease is less than the uplift value that the property will benefit from. While the Royal Borough of Kensington and Chelsea has witnessed long-term year-on-year growth of 10.7%, growth in 2014 is above the long-term average, now standing at 13.7% (Land Registry). With the new developments in Grosvenor Square likely to be highly sought after, owning a property – whatever its value – within Mayfair is sure to offer a sound investment long term.

This analysis was undertaken by Wetherell in conjunction with Lonres and Dataloft Ltd, using data up to May 2014, and is produced for general information only. Whilst every effort has been made to ensure the accuracy of this publication, no liability for any loss or damage is accepted.



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