The Prime Residential Market in Westminster

Prepared for Westminster City Council
By RAMIDUS CONSULTING LIMITED
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Executive Summary

- Between 2003 and 2012 there were 3,335 sales of Prime property, valued at more than £2 million, in Westminster – 8% of the total number of transactions, but accounting for more than 40% of value.
- Between 2008 and 2012, sales of Prime homes have averaged 450 per annum in Westminster. Annual stock turnover in Westminster ranges between 2,700 and 6,000 units, meaning that around 10% of turnover is Prime.
- Over the past four years, an average of 126 of these 450 sales have been to non-resident overseas buyers.
- The vast majority of all sales are of second hand stock, with fewer than 10% in new buildings. Overseas buyers account for over half of all Prime sales, and as much as 80% of new build sales.
- Transaction volumes of properties worth more than £2 million have mirrored the price of gold (a proxy for global economic confidence) supporting the view that they are seen as a safe haven by investors. Prime sales have not fuelled a general rise in house prices.
- Typically, owners of properties worth more than £15 million each spend around £4.5 million in London annually. Those in the £5-£15 million range each spend around £2.75 million.
- Household expenditure by owners of properties worth over £5 million in Westminster exceeds £2.3 billion a year in London and the wider UK economy.
- Westminster yields more Stamp Duty Land Tax than the 29 largest local authorities in the UK combined.
- The research finds that the negative impacts of Prime residential property (such as under-occupation) are difficult to quantify reliably, but are not as detrimental as often portrayed in the media.
- Prime residential does not play a major role in preventing Westminster from being able to meet its overall housing needs. Other, wider factors are far more significant.

The purpose of the research The central purpose of the research presented here has been to gather an evidence base to quantify and describe the scale and nature of the Prime residential market in Westminster and to consider its impact on the economy and communities **(Section 1.0)**. Prime property is defined as that with a market value of over £2 million. The need for the project was driven largely by a concern of the City of Westminster that the balance of new housing supply in the borough might be reducing its ability to meet all housing needs.

A growing public debate The research took place against the background of a vigorous public and political debate about trends in the housing market. Specifically in London, there is concern about the availability of sufficient housing, of different types, to meet needs, particularly for those on lower incomes. At the same time, prices have been rising at rates that seem to defy the malaise in the national economy. And within all of this a spotlight has been thrown on the role played by overseas buyers of Prime property, both in terms of their role in driving price escalation, and in terms of the perception that they are buying properties as investments, not as homes. During the course of the research the Government announced that overseas sellers will lose their exemption from Capital Gains Tax.

An intractable problem Westminster has a finite supply of land; it is inherently expensive due to its position at the heart of the capital. And yet Westminster already has a severe shortage of affordable housing, a growing population, a very large and growing economy, and intense demand pressure from UK and overseas buyers and renters. It is inevitable that high prices are being driven ever higher, and that the cost of a home in Westminster is moving further from the reach of Londoners with 'ordinary' incomes. One way to control price rises is to build more housing, but – and here we complete the circle – land is in very short supply. Without substantial subsidy, it is not possible to build housing that is accessible to 'ordinary' Londoners. That, by any standards, is an intractable problem.

A changing social structure The report begins with an outline of population, demographics and tenure in Westminster, providing important context to the discussion of Prime property **(Section 2.0)**. It is striking that the borough has been losing lower income social groups; and the question that arises is whether this attrition is sustainable, without compromising Westminster's capacity to service itself? Is a numerically small, but financially overpowering, group creating issues that prevent the City of Westminster fulfilling its social and economic obligations and, in the end, prevent the borough from functioning efficiently?

Westminster has always been an expensive place to live. Change is inevitable and, indeed, London bears the hallmarks of an urban region in a constant state of flux. However two issues follow **(Section 2.6)**. First, because the level of social change is showing up even in relatively aggregated Census data, even in the absence of grassroots concern and media attention, there is a prima facie case to be investigated.

Secondly, the pace of change has accelerated in the post-credit crunch period. The scale of transformation, if not unprecedented, is certainly highly unusual. It is not necessary to take any political stance, nor even to make strong value judgements, to grasp that such physical change, against a backdrop of social change, is worthy of close and considered analysis.

The supply of housing in Westminster Today there are around 118,000 dwellings in Westminster, a figure that has grown by almost 15% since 2001 **(Section 3.1)**. Two-thirds of these properties are purpose-built blocks of flats; a proportion that has increased markedly in recent years. Data suggest that new housing supply has defied the impact of the credit crunch, unlike the wider residential market, which was starved of cash for developers and credit for buyers. This fact alone suggests that recent new home provision in Westminster has been driven by external forces.

Further expansion underway The increase in housing supply is set to continue. The development pipeline at Q3 2013 includes around 1.14 million sq m of residential property under construction or planned to start **(Section 3.2)**. To put this into perspective, it is more than has been delivered in the entire period since 2007. Put another way, it equates to around 14,500 two bedroom flats of c85 sq ft each.

Office to residential conversions A proportion of Westminster's new stock has been provided through conversions from office stock **(Section 3.3)**. Since 2001, over six million square feet of offices (that once accommodated c30,000 workers) have been redeveloped into 3,329 new homes, or around 21% of net addition over the period.

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How much Prime is there? A key question in the context of this report is: how many of Westminster's homes can be classed as Prime stock? Prime property is defined as that which is valued at >£2 million. At the last council tax valuation in 1992, a Band H property in Westminster was valued at £330,000. Conveniently this is the inflation-adjusted equivalent of around £2 million today. There are almost 15,000 Band H properties, so we can infer that around 13% of all homes in Westminster are Prime stock, i.e., valued at >£2 million **(Section 3.1)**.

Volume of residential sales Over the ten-year period from 2003, some 43,000 homes were bought and sold in Westminster **(Section 4.1)**. This total includes some dwellings that have been sold more than once. The number of sales in each year ranged between 2,700 and 6,000 – or between 3% and 7.2% of the private housing stock - depending on the state of the market. The highest volumes of sales were in 2006 and 2007, with a sharp decline in 2008 and 2009, and a partial recovery in 2010 and 2011.

It must be emphasised that the volume of sales of <£2 million is much greater than those of a higher value: since 2003, 81% of properties sold in Westminster were <£1 million, and 92% were <£2 million **(Section 4.2)**. Although the proportion declined through the decade, still in 2013, sales of <£2 million made up 80% of all sales.

Volume of Prime sales While representing just 8% of the total 43,000 sales in the decade following 2003, Prime sales accounted for over £15.4 billion (or 41%), of the £37.7 billion total sales value **(Section 4.3)**. The Prime sales comprise 2,544 of £2-£5 million; 701 of £5-£10 million, and 90 of >£15 million. Setting aside the lowest of these price bands, in the >£5 million market, 791 sales generated combined sales of £7.6 billion. Put another way: just 2% of all sales, but more than 20% of the value. In this sense, the Prime market is large.

Is Prime property driving prices generally? The data suggest that Prime residential sales are behaving differently to the non-Prime market. We sought to understand this more closely by comparing changes in property price bands with earnings and the price of gold – measures that might be expected to reflect sales trends, depending on whether they are responding to local or global economic signals. In this analysis we found that the £1-£2 million price band is behaving differently to the price bands above and below **(Section 4.3)**.

An important finding here is that while the average price for properties of >£2 million has grown relatively little since 2003, rising transaction volumes have mirrored closely the price of gold. The number of sales grew steeply after the credit crunch, as did gold prices, supporting the view that high value properties are seen as a safe investment, and helping to explain their appeal to overseas buyers.

Sales of <£1 million in Westminster (92% of all sales in the period 2003 to 2013) have tracked the national housing market since 2008. Although average prices continued to rise, transaction volumes fell after the credit crunch and stayed low as credit was constrained and the economy weak. By contrast, sales of £1-£2 million recovered swiftly after 2008, and have continued to rise.

This de-coupling of the £1-2 million price band from <£1 million properties is an interesting phenomenon, with the critical point being that the £1-£2 million sales bracket represents a transition point from "core market" (<£1 million) to "Prime market". Given their relative sizes, and the fact that £1-£2 million price band has been far more active than the Prime market, it is perhaps likely that this is where the pressure on prices is most acute. These observations deserve further investigation.

Prime sales are not fuelling price rises generally The data do not support the hypothesis that the Prime market is fuelling house price rises more generally. If that were the case, we would expect to see a closer relationship between the trajectory of growth in properties of >£2million and those in the lower price brackets. We conclude that while growth in Prime property prices undoubtedly creates confidence in the wider market, Prime sales are responding to different signals from the rest of the market. So, if non-Prime Westminster prices are rising, it is likely that the explanation lies elsewhere. This is not to deny that the growing number of Prime sales transactions has potential social and economic consequences.

Around 126 Prime sales each year are to non-resident overseas buyers Over the past four years, Prime sales have averaged 450 per annum in Westminster. Around half of these (220) were to overseas buyers, of which 57% (126) were non-resident overseas buyers **(Section 4.4)**. This is an approximation, but it helps to scale the magnitude of prime overseas buyers when compared to Westminster's typical annual stock turnover of 2,700 to 6,000 units.

This report distinguishes between three types of overseas buyer. First are the global super wealthy, comprising a small number of people who buy super prime homes (>£5 million). Secondly there are London-based workers who live and work in London, contributing to community and economy in the same way as UK citizens. These are evident in all price brackets. Thirdly, there are investors who buy mainly new homes, of £500,000 to £2 million, as income-producing investments, much like UK investor buyers.

Our research suggests that all three types tend to buy with the intention of holding the property in the medium- to long-term. Our evidence of relatively moderate price growth in super prime property supports the view that they are purchasing with a longer term horizon.

Westminster's housing becomes less affordable Westminster is an expensive place to buy property. Statistics show that among 25 most expensive locations nationally, it is second only to neighbouring Kensington & Chelsea in terms of average sale price **(Section 5.1)**.

Already unaffordable for most, the entry level cost of a home in Westminster, has become even less affordable. While the affordability ratios (price as a multiple of income) for the UK and London have remained essentially stable since the credit crunch, prices in Westminster have risen from 16 times average national earnings in 2003 to 27 times in 2012. Moreover, prices have risen relative to the rest of London. The 1995 average Westminster house price was 160% of the average for London; in 2013 this had risen to 220%.

The danger of a simplistic public debate The debate about high value housing in central London has become more public and more intense in recent years as values have spiralled and as the visible presence of overseas money has become more obvious. The media paint a picture of London becoming a place for the world's wealthy rather than Londoners, and the "*lights out London*" debate suggests that the growing numbers of overseas buyers spend very little time in London **(Section 5.2)**.

The debate about the impact of Prime property is often presented in the media as a binary debate: good thing or bad thing? Often the arguments are based on hearsay and personal experience rather than on any robust factual foundation. But even when a debate informed by facts takes place, there remain strong divisions about the impact of the Prime market.

What is abundantly clear from this research is that the high value/Prime residential property markets are far more complex than is portrayed in public debate. Different price bands, different locations, different property types and different buyer profiles all serve to defy simplistic binary descriptions. Great care must therefore be taken in considering solutions, or policy responses, to perceived problems. Any measures taken in the pursuit of social justice must be based on robust evidence, and should not be of an arbitrary nature that might cause damage to wider interests.

What the residents think As part of this study we consulted with residents, landowners and businesses in order to address the more qualitative aspects of the project brief, including the level of under-occupation of Prime properties and the impact of Prime property on local communities **(Section 5.3)**. We were told that escalating residential values and volumes of sales activity in Westminster have increased the rate of change in the borough, which is regarded as unsettling for established communities. Residents pointed to a loss of amenities such as pubs and convenience stores, and the arrival of retailers aimed at a different, wealthier demographic. Changes in the socio-demographic make-up of neighbourhoods is considered to undermine community and feelings of familiarity. While Westminster has a long established and important private rental sector, the growth in rented property of overseas owners is perceived to create an increased rate of churn in some communities that have been relatively stable for long periods.

Little tangible evidence of widespread year-round vacancy in Prime properties
While our consultations revealed little strong evidence of high vacancy rates, there is a strong sense among residents that Westminster has a growing number of homes used for only short periods of the year **(Section 5.3)**, and, while these tend to be concentrated in particular areas, the pattern is spreading. Belgravia was the area most often cited as suffering from high levels of vacancy; but the only specific address cited during discussions as an example of 'lights out London' was One Hyde Park.

Widespread criticism of the impact of Prime property on community structure
While the empirical evidence illustrates the true – and much smaller than supposed – scale of empty properties, this is in certain respects, beside the point: residents feel impinged upon. There are concerns, for example, that the under-occupancy of properties leads to the loss of amenities such as pubs, local convenience shops, community centres; and that the rising incidence of private space such as gated developments leads to the breakdown of community cohesion. In some cases, losses of small businesses may be a factor of land value rather than business viability – the land on which the business stands has a higher value for residential.

Residents attach importance to preserving diversity, stability and familiarity. We found a few residents for whom the transition from predominantly rented property to owner occupied property is relatively recent and seen as a positive outcome of change, brought about by Right-to-Buy. More home owners, meaning less rented properties, has meant less transience and increased stability. However, it is the case that areas commanding prime values have expanded and encroached rapidly on new parts of the city. Parts of London have always been beyond the means of 'ordinary Londoners' but perhaps that was acceptable or workable as long as there were neighbouring places that were more affordable. As these become squeezed, the effect is magnified.

The economic impact of the Prime market The Prime market contributes to the economy indirectly through Stamp Duty paid on transactions. Our analysis demonstrates that Westminster yields more Stamp Duty Land Tax than 29 of the largest local authorities in the UK combined **(Section 6.1)**. Similarly, in London, Westminster and Kensington & Chelsea each yield nearly three times as much as the next biggest contributors (Wandsworth and Camden). While not specifically about prime property, these statistics demonstrate the significance of Westminster's high value property in a national and London context.

Prime property owners are major contributors to the UK economy Owners of homes over £5 million generate at least £2.3 billion of household expenditure per annum. The spending power of owners is one of the clearest impacts of the Prime property market. In addition, many Prime home-owners in Westminster own businesses, often employing UK citizens, exporting goods and services overseas, however, reliable data are not available on these impacts. For this study we created a robust model, built up in consultation with stakeholders, to demonstrate the multiplier impact of their household expenditure.

Based on conservative assumptions, owners of homes >£15 million typically spend £4.5 million each in London annually, and those in the £5-15 million price brand typically spend in the region of £2.75 million each annually **(Section 6.2)**. There were 791 sales of homes worth >£5 million between 2003 and 2013. If we attach the spending to these homes, we can demonstrate that those homes of £5-£15 million (701 sold since 2003) generate around £1.9 billion of annual expenditure; while the >£15 million homes (90 sold since 2003) generate a further £411 million of annual expenditure.

In other words, the two price bands, just in terms of the properties that have been sold since 2003, generate £2.3 billion of household expenditure. The model excludes similarly valued properties sold before 2003; it excludes all expenditure by owners of Prime properties worth £2-£5 million and, as said, is based on conservative assumptions. It is therefore a very conservative estimate of the financial impact of the whole Prime market on the London and UK economy.

Prime property has enabled new development in London The forward-selling of schemes (particularly but not exclusively) to overseas buyers has without doubt enabled many schemes to begin construction over the past five years or so **(Section 6.3)**. And these same schemes have delivered Affordable Housing, significant additions to the private rented sector and large Section 106 obligations. A review of extant permissions in Westminster shows that there is £150 million (including £78 million from the Chelsea Barracks scheme) allocated through Section 106 agreements for new Affordable Housing.

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Prime property shows a marked tendency to cluster around large green spaces Westminster's Prime residential market has grown in recent years. It is also clear that growth has not been even across the borough, and that a small number of significant concentrations are evident **(Section 6.4)**, such as around Hyde Park. It is also now clear that the Prime property market is spreading beyond Westminster (and Kensington & Chelsea).

Policy implications Our research has demonstrated that while the prime property market forms a large proportion of the borough's residential market in terms of value, the number of properties involved is relatively modest. This is not to deny the wider issues around perceptions of its impact on community cohesion and vitality, but simply to provide a specific context to spatial policy considerations. Westminster has long been an expensive place in which to own a home and there is no reason to expect this to change.

The City of Westminster clearly has a difficult line to walk. On the one hand it must aim for a framework within which a range of housing types can be delivered to meet the needs of a broad demography. At the same time, pressures on its highly constrained land supply are such that, left to itself, the market will not deliver new homes at prices that are accessible to any but the most affluent groups of society.

Given the seemingly intractable problem of affordability in Westminster and the limited funds available to address housing need, there is limited scope for locally devised spatial planning policies that will radically improve Westminster's ability to provide housing at widely accessible prices. Moreover, the size of Westminster's Prime market is such that any measures devised specifically to restrict it could be deemed discriminatory, and not in London's, or the UK's wider interests.

These factors lead us to the conclusion that the peculiarities of Westminster's housing market mean that there are issues that need to be addressed as part of a London strategy through co-operation between boroughs (particularly within central London), and with the involvement of the Mayor's office, and Government.

We support the London Finance Commission's recommendations that the full suite of property taxes (Annual Tax on Enveloped Dwellings, Business Rates, Capital Gains Tax, Council Tax and Stamp Duty Land Tax) should be devolved to London government, which should then have devolved responsibility for setting the tax rates and authority over all matters including revaluation, banding and discounts.

Given our overarching conclusion, we have set out our own policy implications for consideration at three levels of political responsibility.

Central Government

- Ring fence proceeds from Westminster's SDLT to help finance and maintain its existing public sector rented housing stock.
- Introduce at least three additional Council Tax Bands, covering properties valued, in today's prices, at £2-£5 million, £5-£15 million and >£15 million.
- Work towards a simpler, unified and more predictable property tax regime, in order to nurture a climate of certainty and fairness.
- Introduce an additional property tax to be levied on homes that are occupied for fewer than 90 days of the year, and explore the practicality of a

hypothecated tax, a Community Contribution Tax, that could be used to contribute to a community activity or facility. Neighbourhood forum areas might be an appropriate administrative unit.

Collective approach: pan-London and Mayor's office

- Given the particular conditions in Westminster's housing market, we suggest that some of the funds collected in lieu of Affordable Housing, should be spent where land costs are lower, beyond the Westminster boundary. We recognise that this is a controversial proposal. It contradicts Westminster's stated objective of meeting housing need within the borough. However, rising land values are a fact; and it will be increasingly difficult to provide Affordable Housing or public sector rented housing stock. Cross-borough policies would acknowledge Westminster's unique role in the UK and London economy, such that the borough is not treated as an "island" in policy terms.
- It would be important to minimise any economic disruption this would cause, for instance to workers unable to live close to their place of work.
- Seek support from public funds to subsidise public transport costs for low paid workers in the borough to travel longer distances. Working with Transport for London, consider a flat rate zone one fare for workers earning below a minimum threshold employed within the borough.

City of Westminster

- Deliver, where possible, public sector rented homes for local people and shared ownership homes for local key workers within the borough.
- Westminster should, wherever possible, seek to retain Affordable Housing on site, in order to create and preserve mixed and balanced communities. It should also consider a tiered mechanism for negotiating Affordable Housing provision to reflect land value.
- There is no official source for data showing the extent of wholly or periodically vacant properties. Westminster should initiate a process to collect more accurate data either through Council Tax returns or periodic survey work.
- The interaction between the price band immediately beneath prime (i.e. £1-£2 million) and the remainder of the mainstream need to be more clearly understood in terms of supply patterns and ownership patterns, and in terms of its relationship to supply and pricing in the private rented sector.
- Create longitudinal data to measure and monitor change through regular survey work to record changes in, for instance, levels of occupancy; membership of residents' associations; loss and gain in local amenities; use of facilities and so on. This might be administered via neighbourhood groups.
- Consider a way to incentivise landlords and tenants to agree leases in the private rental sector for periods of more than two years.
- Consider the more widespread use of special policy areas to protect certain streets or uses, such as independent retailers.

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1.0 Introduction

1.1 Project context

This project was commissioned in October 2013 by the City of Westminster. The need for the project has been driven largely by the Council's growing concern over the balance of new housing provision in Westminster in terms of whether it is meeting housing need; and particularly the sub-optimisation of site potential. For example, the Council is concerned that a trend towards fewer, larger premises, aimed at the Prime[1] residential market, might reduce the opportunities for housing optimization on sites that could accommodate more, smaller units.

Westminster has gained 13,000 residential units since 1997 (a net addition of 12% to stock). However, there remains a shortage of housing, with c4,000 households on the social housing waiting list and an estimated 20,000 households needing intermediate housing. These dynamics suggest an imbalance between the types of houses being provided and the level of demand for public sector rented housing.

Additionally, the Council is concerned that new Permitted Development Rights (PDR)[2], effective in Westminster beyond the Central Activities Zone (CAZ), which was granted an exemption, will mean that it will be unable to ensure that the right mix of housing types and unit sizes is delivered to meet housing need as identified in the Strategic Housing Market Assessment (SHMA). For example, without the ability to control the mix of sizes and types of property, the Council is concerned that while housing targets might be satisfied with a net increase in the stock, this will be achieved by building properties that are only accessible by the very wealthy.

Additionally, the Council has a particular concern that in areas beyond the CAZ, if planning permission is not required to change office use to residential (following the change to PDR, the Council will lose its ability to impose a planning policy requirement for Affordable Housing through negotiated Section 106 agreements.

Despite these concerns, the Council recognises the undoubted contribution of owners of Prime residential properties to Westminster's economy and by implication London's role as a world city. The purpose of the research is therefore to provide evidence of the impact of the market in Prime residential property, which will assist in the formulation of development management policies. These will feed into the City Management policies revision to Westminster's City Plan.

The Council's current policy approach is to allow the change of use from offices to residential and unfettered Prime residential development. This evidence base will help to determine whether any spatial policies would be effective in enabling it to cater for the Prime market while addressing its housing need problem.

In developing a more robust understanding of the nature of Prime residential activity in Westminster, the Council wishes to ascertain answers to the following questions.

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[1] The variable use of 'Prime' and 'prime' is intentional and is explained on Page 3.

[2] Permitted Development Rights came into force in May 2013 as a set of measures to simplify planning procedures by enabling certain changes to buildings without the need to apply for planning permission. The measures included one to enable change of use from office to residential. The area of Westminster within CAZ was granted an exemption.

- What is the nature of the Prime property market in Westminster?
- What contribution does it make to London's role as a world city?
- How has it changed over time and what does the future hold?
- To what degree are Prime residential units left vacant?
- What is the impact of vacancy on the local economy and community?
- To what degree is it a characteristic of other global cites, for example, Hong Kong, New York, Paris and Tokyo? Can lessons be learnt?
- What potential planning or other policy mechanisms could be adopted to better manage the implications of Prime residential property for wider social and economic benefits?

1.2 About this report

Given the nature of the public and political debate about housing generally, and the impact of prime property in particular, it is perhaps helpful to be clear about what this report sets out to do (and what it does not). In this respect, four issues in particular are worth highlighting.

First, at the core of this research lies what is referred to as 'the intractable problem', which was best summarised in the Mark Twain quote "*Buy land*, *they're not making it anymore.*" Due to its position at the heart of the capital, Westminster's supply of land is severely constrained, making it inherently expensive. At the same time, the borough faces a shortage of affordable housing, a growing population, intense demand pressure from UK and overseas buyers and renters, and a very large and growing economy. The research seeks to describe the impact of the prime residential market in the context of these often contradictory pressures.

Secondly, the report sets out to provide an evidence base which can then be used in the process of policy formulation for housing provision; the report itself does not seek to guide that policy development, but draws out the implications for policy makers. The complexity of this evidence base, given the highly public and political nature of much debate, is highlighted by the research team on Page 62, as follows.

> *While it is obviously a truism to say that things are often more complicated than they first appear, this report shows just how complex things are in this borough. To even imagine that this could be summarised in a simple, unilinear narrative to generate straightforward answers would be naïve.*

The report addresses this complexity by providing detailed evidence, in as comprehensive a way as thought possible, to allow an objective assessment of the impact of prime property for the purpose of policy formulation.

Thirdly, the report examines only Prime property, which is defined as property with a sale value in excess of £2 million (see definition at Section 1.4 below). Much public discussion revolves around the impact of wealthy buyers on the affordability of property in Westminster; and a sub-set of this discussion is the impact of overseas buyers who are reported to leave property vacant for much of the time (often referred to as 'buy to leave'). While vacant properties are thought to be as prevalent, if not more so, in properties of less than £2 million, this research seeks to assess whether Prime property is driving the wider affordability issue. As part of this discussion, the research reports on purchases by overseas buyers.

Finally, the report has sought to draw upon a wide spectrum of reputable secondary sources in order to pull together a coherent description of the impact of prime property. As is often the case with secondary sources, their underlying definitions, data bases, purposes and so on are rarely uniform. Care should therefore be exercised in understanding the nature of the sources, especially when comparing the data presented in this report from different sources.

1.3 Report outline

The output from the literature review, analysis of data sources and consultation exercises were blended to form the basis of this report. The report has been organised to build an evidence base from which the Prime and super prime residential markets can be objectively assessed.

The report begins by placing the Prime residential market in its social and demographic context (Section 2.0 *Population, households, occupancy and tenure*). We then examine the stock of residential space in Westminster and how this is changing (Section 3.0 *Residential stock and development*).

From this we focus on sales of properties, first, all sales, then non-Prime sales and finally Prime sales, in order to understand the relative scale of the Prime market (Section 4.0 *Property sales*). Having built up a quantitative picture of the Prime market, we then turn to assess more qualitative aspects (Section 5.0 *Prime residential: the qualitative context*). This section focuses on the public debate over Prime property and stakeholder feedback.

In Section 6.0 (*The impact of the Prime residential market*), we seek to convey the impact of the Prime residential market from a range of perspectives, including the economic contribution of Prime home owners, spatial patterns, the impact on the private rented sector, and the impact on the delivery of new homes. The report then draws conclusions from the evidence base and outlines potential spatial planning policy implications (Section 7.0 *Conclusions*).

1.4 Method and definition of Prime property

A detailed method statement is provided as Appendix One, including a detailed explanation of the main sources used in the report.

While the brief for this project refers to *Prime and Super Prime residential property*, for the sake of clarity and brevity, the remainder of this report refers simply to *Prime property*. It is important at this stage to define what is meant by the term *Prime*. In seeking an appropriate definition we have consulted a number of experts and been cognisant of definitions used in published research. There is no exact consensus on definitions; they have changed as average prices have risen over recent years. The introduction of “super Prime” is a symptom of this.

Using a percentile definition (say, the top 10%) is not appropriate because of the “stretching” effect of price rises and spatial spread. Some agents now blend prices with location to define Prime, although our analysis here is limited to Westminster. Further, the distinction between Prime and super Prime is somewhat arbitrary for our purposes here, which focus on policy responses to high value property.

However, for the purposes of statistical analysis, and for distinguishing “very high value” property from “mainstream” property, we have sought to define Prime and super Prime. Following from and reflecting various conversations with agents, developers and owners, we have defined property as follows.

Value band	Property type	
More than £15m	Prime	Super Prime
£5m to £15m		Intermediate Prime
£2m to £5m		Prime
Less than £2m	Core market	

Thus, all residential properties with a value of >£2 million are regarded as 'Prime' but it is important for meaningful analysis to distinguish bands above that base level. This is a working definition for London and we recognise that outside London prime would probably begin at a lower price threshold.

Throughout this report, where we use "Prime" in accordance with this definition, we use it with a capital 'P'. This is to distinguish from the use of the term prime by third party sources. Where prime is used to denote a geographical or price definition (as described above), it is used with a lower case 'p'. See also Section 4.0 for a discussion of the definition of prime and Prime.

1.5 Acknowledgements

The project was completed with the generous help of a large number of people. In Appendix Two we provide a list of those who contributed.

2.0 Population, households, occupancy and tenure

In this section we analyse Census data in order to paint a picture of Westminster as a social entity, using Census data from 2011 and, for comparison, 2001. We examine national origins, household structure, occupancy and second home ownership, wealth and tenure patterns. This is important context for understanding the impact of the Prime property market on communities and local economies.

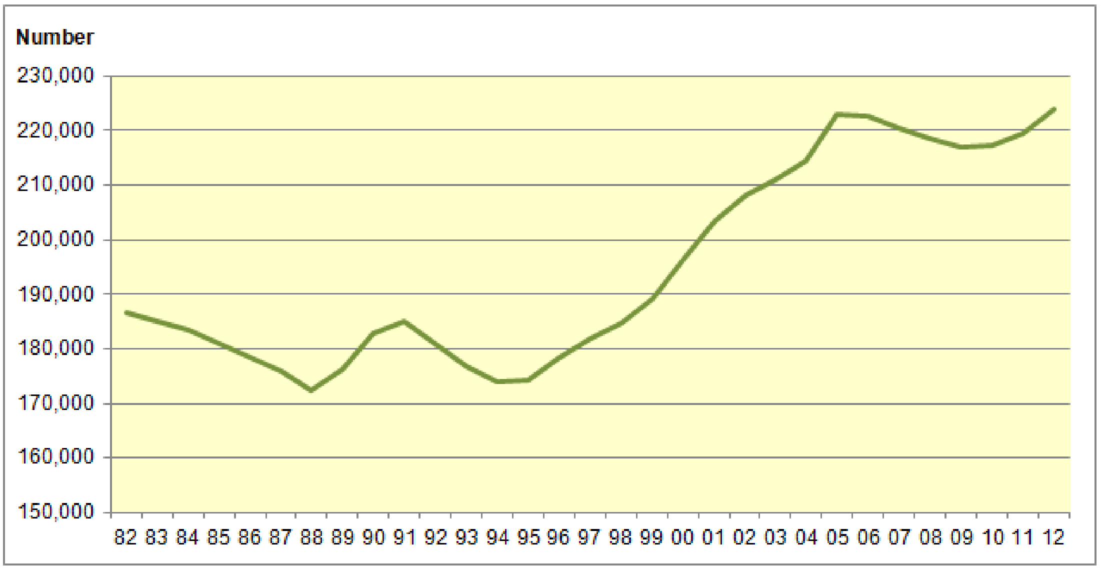
A key driver to undertake this research was a concern within the City of Westminster that the growth of Prime residential property in the borough might inhibit its ability to meet the housing needs of all residents, due to spiralling land values. It is therefore important to demonstrate the socio-economic structure of the borough as context to evaluating the impact of Prime property.

Our consultation with stakeholders highlighted the perception that buyers of Prime property contributed toward the erosion of established communities. Symptoms of this were said to include properties that remained empty for long periods of time, convenience shop closures and the closure of cafes and pubs. The association of Westminster with wealth is not a new phenomenon but, taken in isolation, it is also misleading: Westminster provides a home to a wide range of socio-economic groups in its eight square miles, including pockets of severe poverty.

2.1 Population and income

As Figure 2.1 shows, Westminster's population grew strongly and continuously between 1994 and 2005, increasing by over one-quarter (28.1%). This compares with a more modest growth of 9.4% for the whole of London.

Figure 2.1 Westminster population, 1982-2012

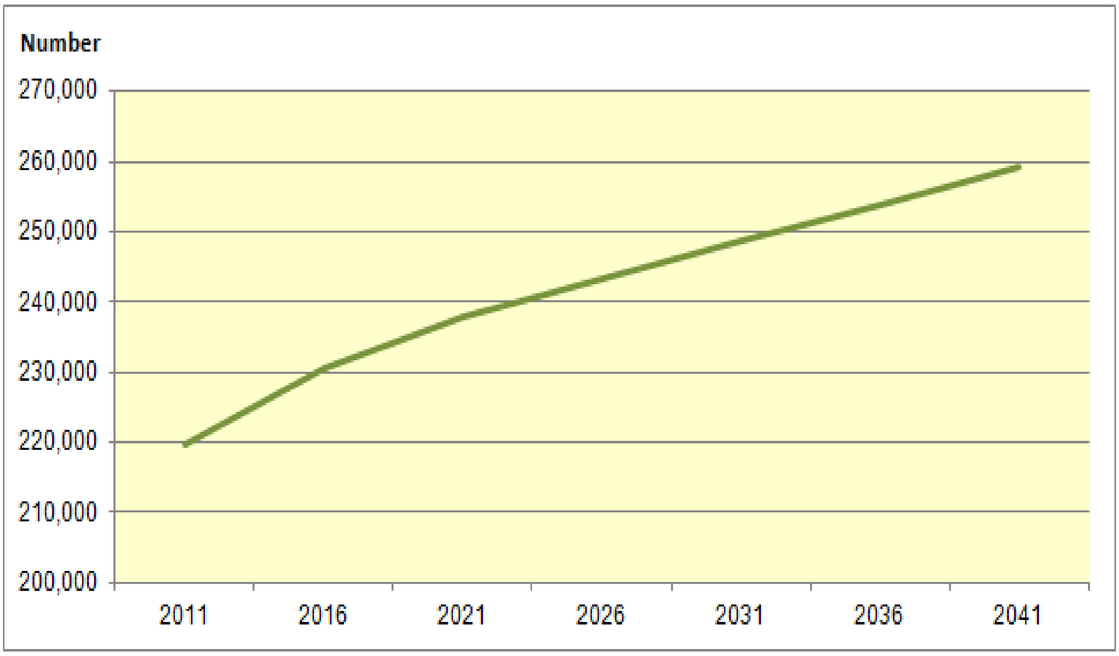


Source: NOMIS

As noted by the City of Westminster, the borough has experienced "*some of the highest rates of international migration in the UK*". Following 2005, there followed a four year dip in estimated population[3], before numbers picked up again in 2010, bringing the 2012 population of Westminster up to 223,900.

London's population is expected to grow by around 1.75 million between 2011 and 2031, or by 21.3%. Over the same period, Westminster's population is projected to increase from 219,600 in 2011, to 248,700 – a growth of 13.2%. Figure 2.2 shows Westminster's projected population growth through to 2041. The population data, historic and forecast, demonstrate the pressure that Westminster has, and will continue to be under, in terms of housing need. With an additional 29,000 people to house between 2011 and 2031, the borough will be under constant pressure to provide new housing.

Figure 2.2 Westminster projected population, 2011-41



Source: GLA[4]

Westminster's population is, relatively speaking, getting more wealthy. Residents of Westminster, on average, earn relatively high incomes, as the data in Figure 2.3 show, the earning gap between it and the nation is widening. In 2002 average earnings in Westminster were 137.7% of the the average for Great Britain, and 111.6% of the average for London. By 2012, these figures had grown to 161.7% and 132.0%, respectively. Further, historical data show that the proportion of the population in the top four Socio-Economic Classifications has more than doubled.

[3] We note concerns from the City of Westminster that the Census undercounts the population of the borough. However, in the absence of a formal methodology for measuring any shortfall – and also because of methodological changes by ONS - we take the official data as the best available, subject to this caveat.

[4] GLA (2013) *GLA 2012 Round Population Projections*

Figure 2.3 Income in Westminster, London and GB, 2002 and 2012

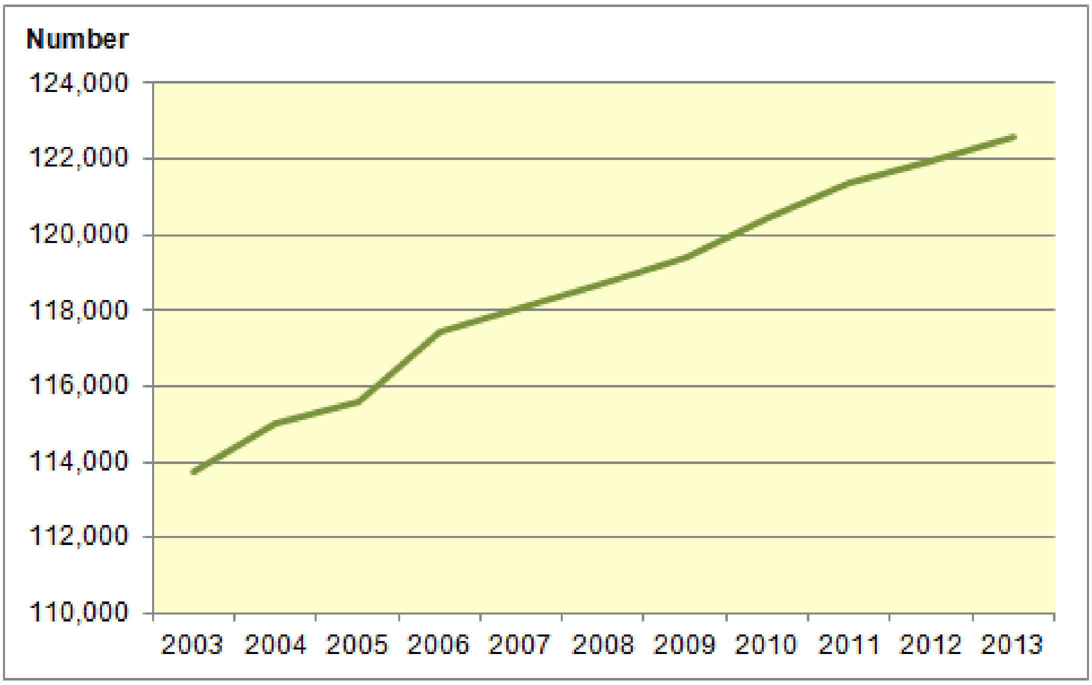
Income and work	%
Annual income as % of GB average, 2002	137.7
Annual income as % of GB average, 2012	161.7
Annual income as % of London average, 2002	111.6
Annual income as % of London average, 2012	132.0
Ward with highest % of Managers, Directors or Senior Officials Knightsbridge & Belgravia (6% points more than second placed)	32.0
% Econ Active pop in top four SEC, 1971	21.7
% Econ Active pop in top four SEC, 1991	28.1
% Econ Active pop in top four SEC, 2001	48.9
% Econ Active pop in top four SEC, 2011	46.4

Source: Annual Population Survey

2.2 Household structure and occupancy

The number of properties generating Council Tax in Westminster grew by 7.8%, or 8,849, between 2003 and 2013. By 2013 there were 122,608 tax yielding properties (Figure 2.4). This figure broadly concurs with the 2011 Census, which recorded 120,066 households. The difference between the number of properties attracting Council Tax and the number of households counted by the Census can be accounted for by the difference in date (2013 compared with 2011), and/or the degree of precision involved in the way the data are collected (see Footnote 3).

Figure 2.4 Westminster Council Tax properties, 2003-13



Source: Census 2001 and 2011

The 2011 Census recorded a growth of 17% in households since 2001 (from 101,220). This compares to a London-wide increase of 9%, reflecting the relative attractiveness of Westminster. Of the 120,066 households in the 2011 Census, c14,000 had 'no usual resident[5] (Figure 2.5). The households with "no usual resident" rose by more than a quarter, perhaps reflecting the emergence of investment properties over this period.

Figure 2.5 Households in Westminster, 2001 and 2011

Households	2001	2011
Number of households with at least one usual resident	91,158	105,722
Number of households with no usual resident	11,145	14,294
Average household size		2.0
Lowest (West End)		1.7
Highest (Church Street)		2.5
Biggest fall in size when "no usual resident" properties are included.	Knightsbridge & Belgravia	28.6%

Source: Census 2001 and 2011

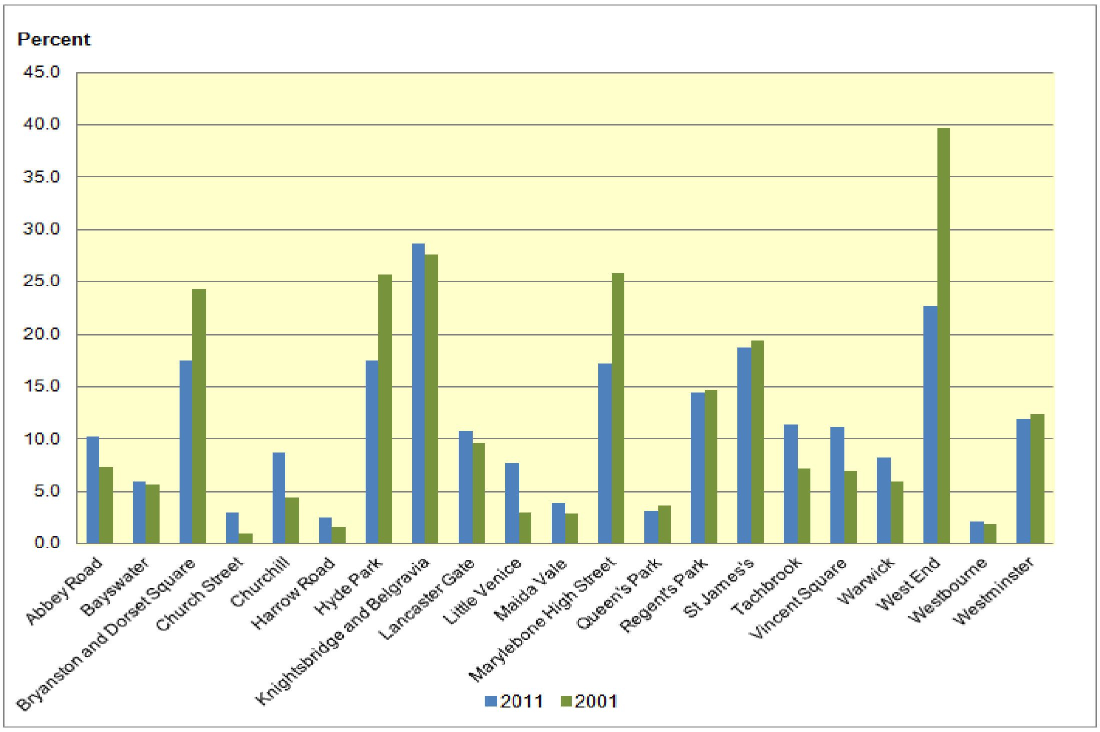
The "no usual resident" figure for 2001 is derived from combining the "second home" and "vacant" figures. The data appear reasonably consistent with data compiled by City of Westminster from Council Tax records, bearing in mind that the Census figure includes a wider range of reasons for there being no usual resident. When converted to an "under-occupancy rate" (households with no usual resident as a proportion of total households) an interesting pattern is revealed (Figure 2.6).

Even a cursory look shows that those wards with the highest level of under ocupancy are those associated with overseas purchases. The Knightsbridge & Belgravia and West End wards stand out, followed by Bryanstone & Dorset Square, Hyde Park, Marylebone and St James's. Knightsbridge has changed only a little over the decade; West End has increased dramatically, as have Marylebone, Dorset Square, Hyde Park and Marylebone High Street.

In a wider London context, the City, Kensington & Chelsea and Westminster are similarly prominent (Figure 2.7). This is the first, albeit indirect, indicator that spending is reflected in socio-economic data. The spatial pattern appears to support the common perception of under-occupied properites in London's most expensive locations, with a disproportionate number possibly associated with overseas ownership.

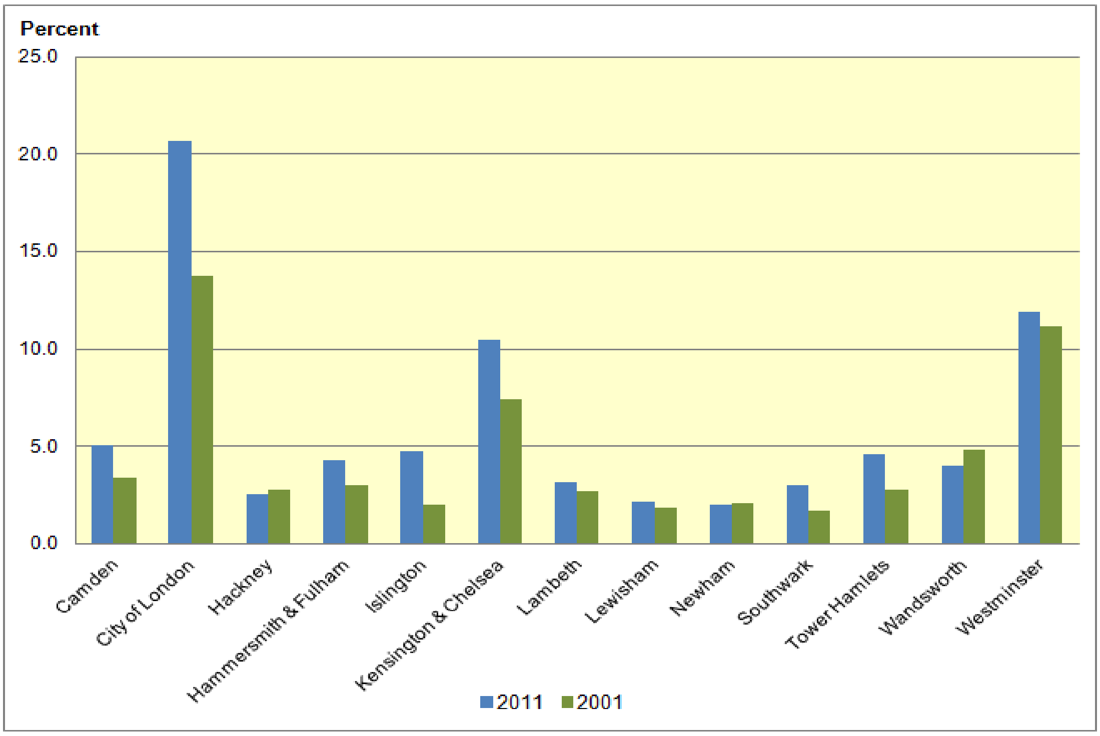
[5] A household space with no usual resident might still be used by short-term residents, visitors who were present on census night, or a combination of short-term residents and visitors. Households are used here as a proxy for homes, rather than dwellings because it makes possible more comparisons with other Census data and therefore allows consistency. There is little material difference between the two figures for the purpose of our analysis.

Figurer 2.6 Under occupancy in Westminster 2001-11



Source: Census 2001 and 2011

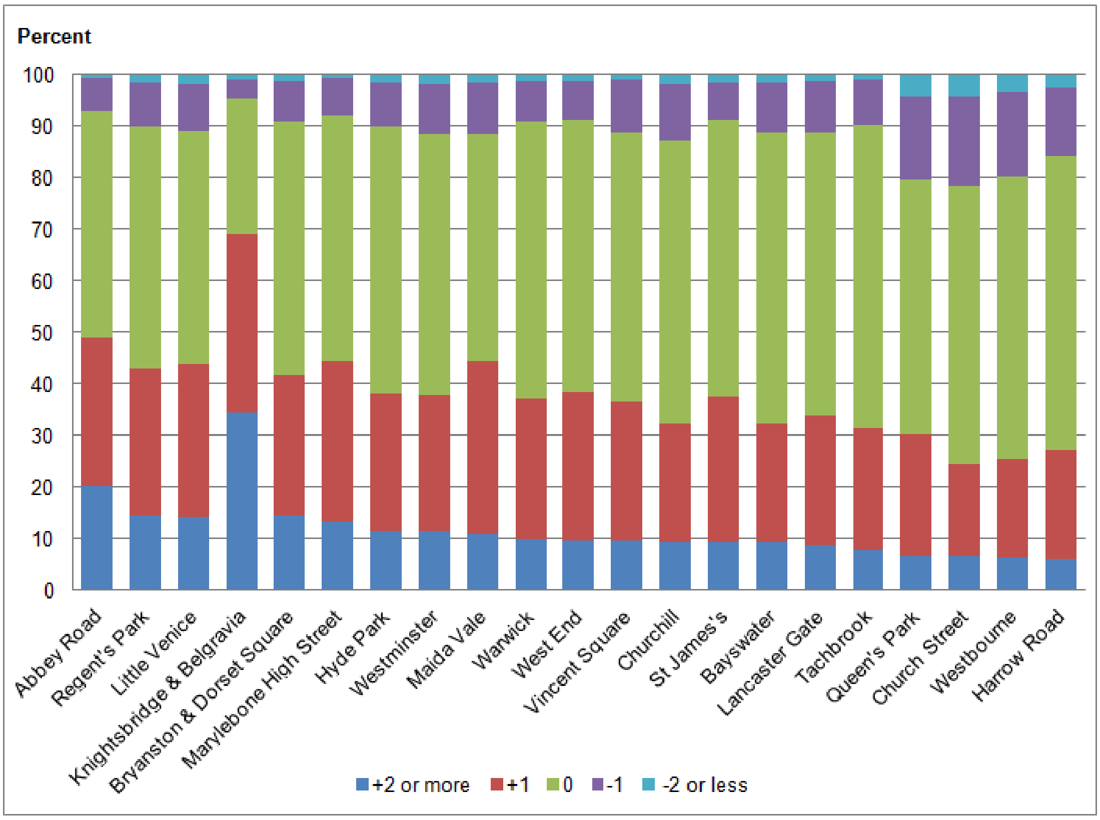
Figure 2.7 Under occupancy in London boroughs, 2001-11



Source: Census 2001 and 2011

The Census also calculates an 'occupancy rate' as a measure of how much of the property is occupied, as opposed to how long, or how often, it is occupied. It is an indicator of the number of "surplus" bedrooms (or shared bedrooms) there are (or how scarce they are): a score of +1 indicates one more bedroom than is nominally required by the occupants, and so on (Figure 2.8).

Figure 2.8 Occupancy rate by number of bedrooms, Westminster, 2011



Source: Census 2011

In areas associated with wealth we would intuitively expect to find more spare rooms, but the ward data support this only partially. Knightsbridge & Belgravia again stands out, but it can be supposed that the physical structure of stock in Westminster rather militates against excess spare space.

However, as might be expected, those wards with large public sector rented housing estates (for example, Queen's Park and Church Street) are where negative scores are most common, suggesting that a relationship between overcrowding and socio-economic class. In the wider London context, the net effect is that Westminster does not stand out among inner London boroughs in terms of either excess rooms, or shortage.

There also appears to be a growth in household sizes. Flexible household arrangements with non-family members sharing dwellings are increasingly common as groups of workers maintain and expand their presence in the City by mitigating against high housing costs by sharing rents. Traditionally,

> *Westminster has had a very high proportion of single person households, with a housing stock largely reflecting this structure. However, as mentioned above, this structure has undergone some recent change.*[6]

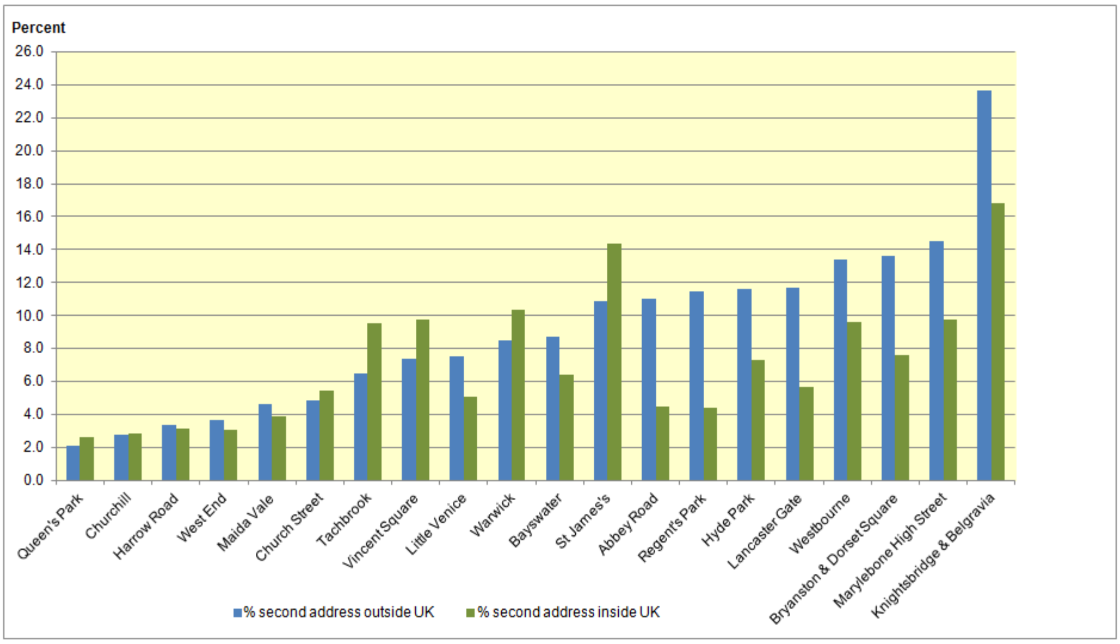
The data for Knightsbridge & Belgravia are made even more striking when changes in household structure are noted. The area most closely associated with wealth seems the most immune to intensification of occupation.

The foregoing indicators are indirect, but give a sense of the spatial variations within Westminster and an indication that partial occupancy[7] is relatively widespread as well as hinting at the presence of a relationship between under-occupancy and wealth. But it is equally clear that no one indicator will tell the full story.

2.3 Second home ownership

Ownership of second homes is another Census indicator that suggests partial occupancy. 16% of Westminster residents own a second home, compared with 11% for London. But in parts of the borough the proportion is far higher. In Knightsbridge & Belgravia, for instance, 40% of residents own a second home and for 23% those homes are outside the UK. In a further eight wards, residents with homes outside the UK range between 11% and 15% (Figure 2.9) compared with 9% for Westminster as a whole.

Figure 2.9 Residents with second homes, by ward, 2011



Source: Census 2011

By contrast, wards associated with a greater density of business activity exhibit a pattern in which residents owning second homes in the UK dominate, possibly

[6] City of Westminster (2011) *Housing in Westminster*
[7] Partial occupancy is a term coined for the purpose of this report to describe a range of circumstances in which a home is not occupied all of the time, or under utilised in some other way.

indicating a high incidence of pied-a-terre accommodation. Overall, the proportion of residents owning a second home within the UK was 6.8% in 2011. Close to 15% of St James's residents fit this category, possibly reflecting a "cottage in the country" pattern for those with a residence in Westminster close to a place of business. Figure 2.10 conveys the data reflected in Figure 2.9.

Figure 2.10 Residents with second homes, by ward, 2011 (the data)

2011 ward	No second address	Second address within UK	Second address outside UK	Total	% second address outside UK	% second address inside UK
Knightsbridge & Belgravia	5,518	1,557	2,195	9,270	23.7	16.8
Marylebone High Street	7,851	1,013	1,502	10,366	14.5	9.8
Bryanston & Dorset Square	9,446	911	1,634	11,991	13.6	7.6
Westbourne	8,144	1,014	1,417	10,575	13.4	9.6
Lancaster Gate	10,896	752	1,547	13,195	11.7	5.7
Hyde Park	10,110	906	1,446	12,462	11.6	7.3
Regent's Park	10,152	533	1,382	12,067	11.5	4.4
Abbey Road	9,511	501	1,238	11,250	11.0	4.5
St James's	8,094	1,559	1,175	10,828	10.9	14.4
Bayswater	8,735	664	901	10,300	8.7	6.4
Warwick	7,602	972	795	9,369	8.5	10.4
Little Venice	9,295	536	802	10,633	7.5	5.0
Vincent Square	8,275	975	738	9,988	7.4	9.8
Tachbrook	6,850	776	532	8,158	6.5	9.5
Church Street	8,624	524	470	9,618	4.9	5.4
Maida Vale	9,344	394	472	10,210	4.6	3.9
West End	11,899	389	471	12,759	3.7	3.0
Harrow Road	11,256	377	401	12,034	3.3	3.1
Churchill	11,103	333	324	11,760	2.8	2.8
Queen's Park	11,970	327	266	12,563	2.1	2.6

Source: Census 2011

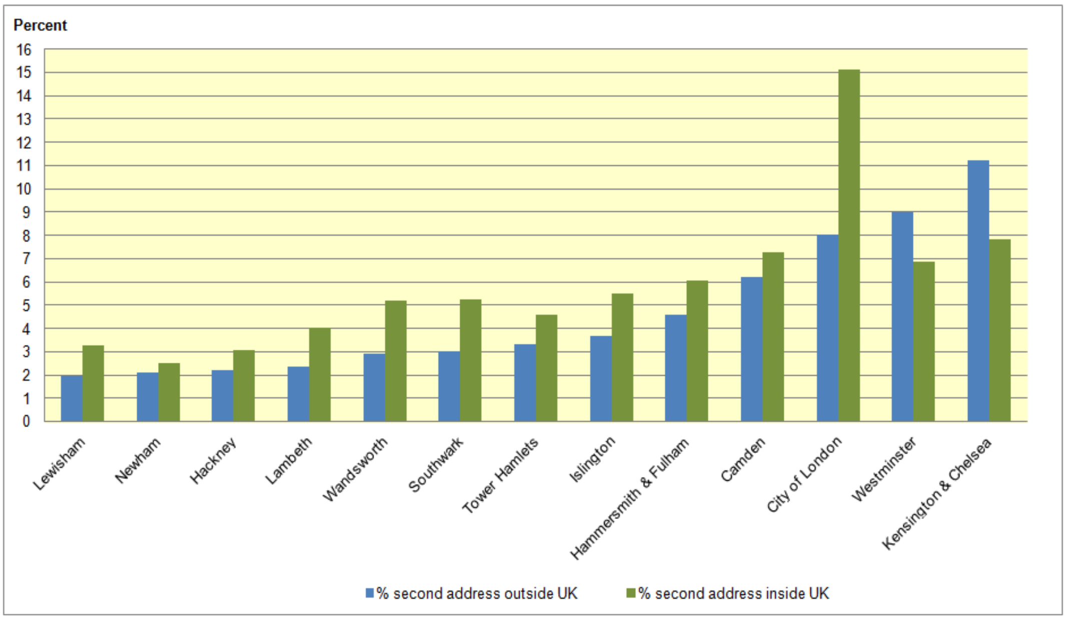
Figure 2.11 compares second home ownership in Westminster with a selection of other London boroughs. Across London, 4.7% of residents have a second address outside of the UK; while 5.9% have a second address within the UK.

In central London, Kensington & Chelsea leads the "outside the UK" second home ownership category, while the City dominates in terms of UK second homes, although the number of people living in the City is a fraction of that in any other borough.

The following bullet points summarise the data on second home ownership.

- From Westminster's 2011 total of c120,000 households
  - 15.8% have a second home, compared with 11% for London
  - 9.0% have a second address outside the UK
  - 6.8% have a second address within the UK
- Across London, 4.7% of residents have a second address outside the UK
- Across London, 5.9% of residents have a second address in the UK

Figure 2.11 Residents with second homes, by borough, 2011



Source: Census 2011

2.4 Tenure

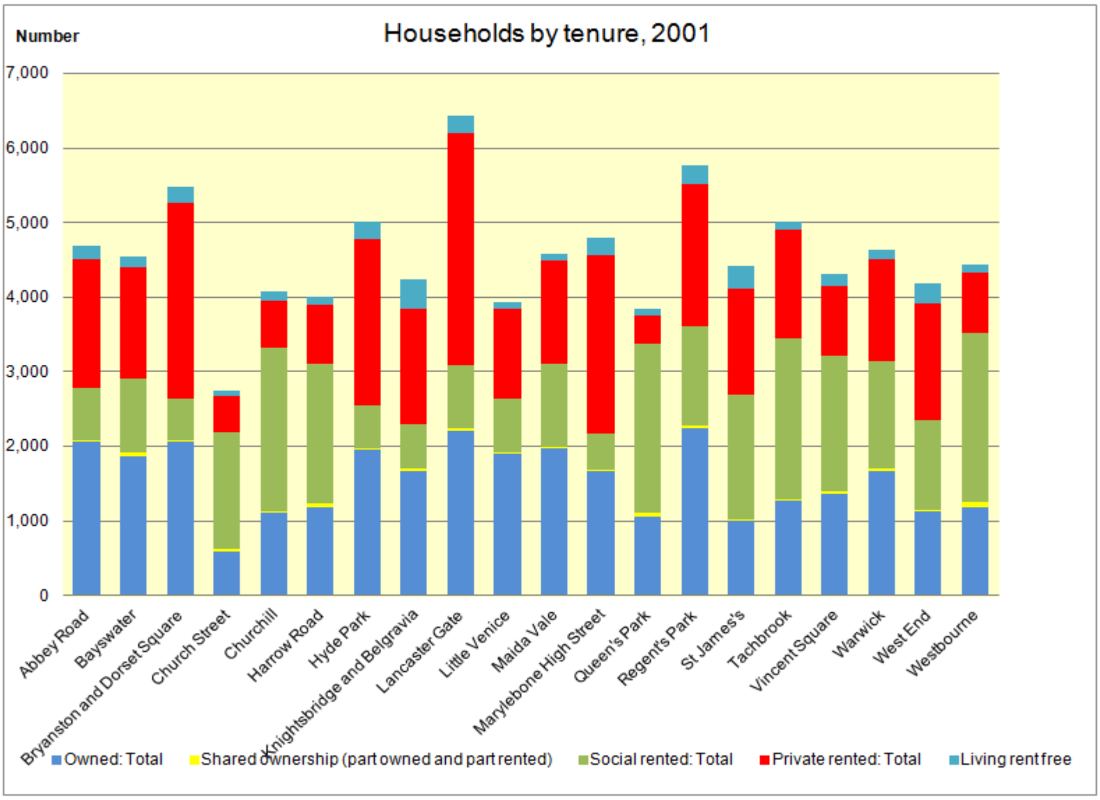
Figure 2.12 compares tenure type, by ward, in 2001 and 2011. One of the most notable features of the data is the steady decline of public sector housing from some wards (although sometimes from a very low base, as in Knightsbridge & Belgravia).

The most likely cause is the right to buy legislation, combined with the inability of replacement public sector house building to keep up. Only Maida Vale saw a – very marginal – increase in public sector renting, while Knightsbridge & Belgravia, St James's and Tachbrook all saw it decline by more than 10%. The overall change however is significant in a different way.

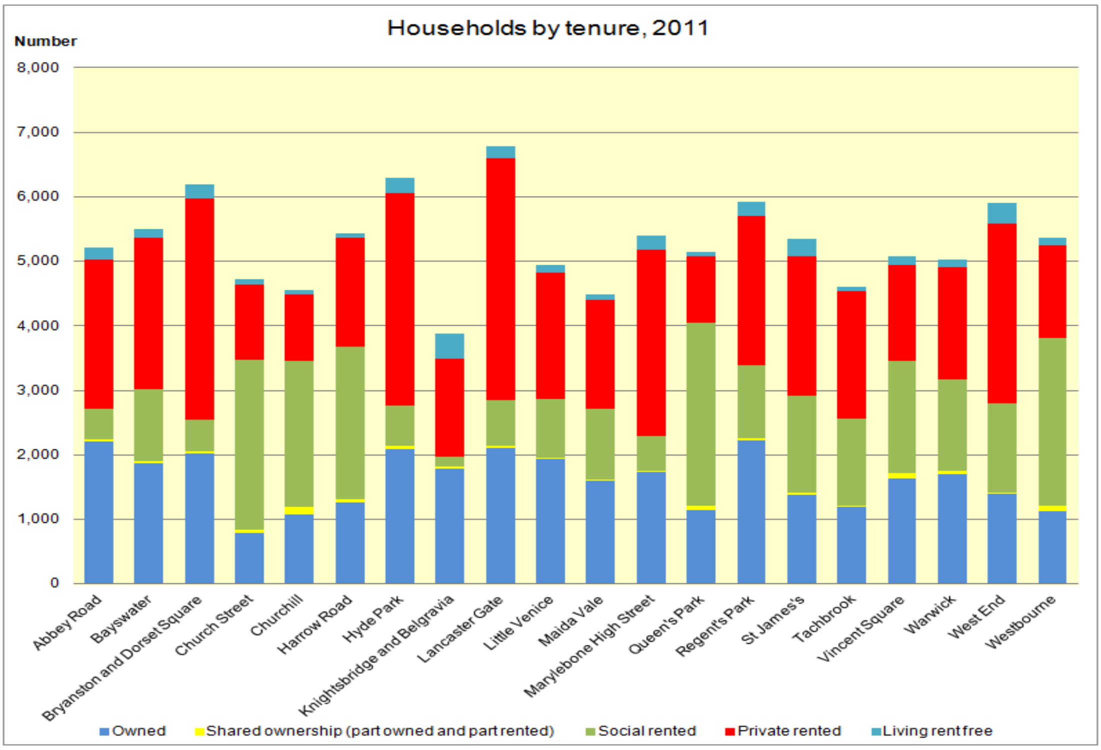
In common with much of London, Westminster, with a growing population, has seen a significant shift in the structure of tenure since 2001 (Figure 2.13): owner-occupation has fallen as a proportion of the total, as has public sector renting, while private renting has increased to the point where it makes up 4 in 10 of households.

But the pattern of change in Westminster is different in two distinct ways from the pattern for London as a whole. Ownership has dropped less sharply, private renting has climbed less sharply. Meanwhile the share of households living in the public renting sector has dropped markedly more – from 28.9% in 2001 to 25.9% in 2011, although it was, and remains, a higher proportion than in London as a whole. It is worth noting also (see Figure 2.15), that the number of people in all tenure types has risen but, while those increases were marginal for owner occupation and public sector rental, the private rental sector accommodated an additional 14,500 households.

Figure 2.12 Household tenure by ward, 2001 and 2011

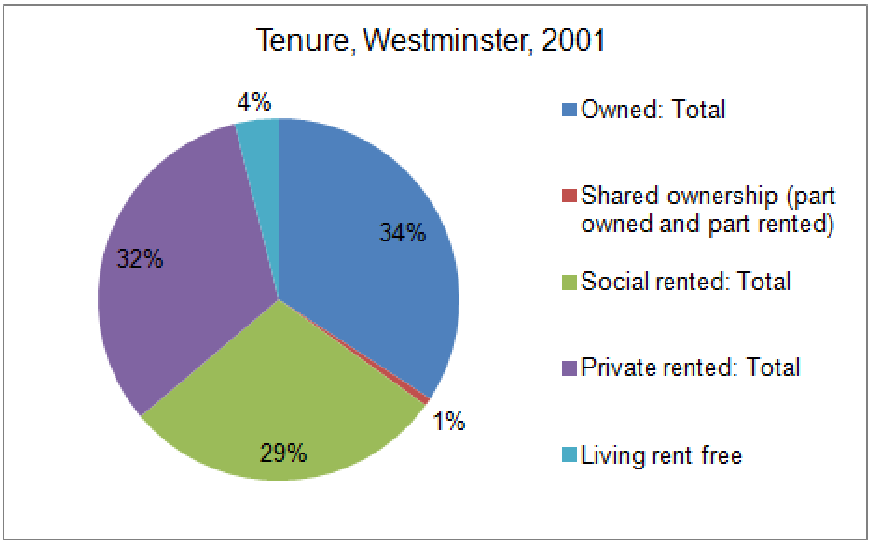


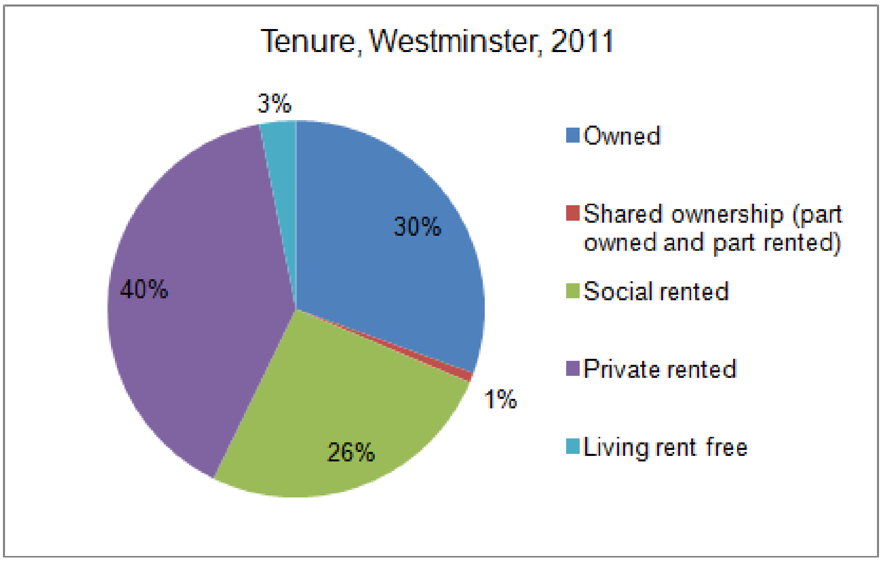
Source: Census 2001



Source: Census 2011

Figure 2.13 Tenure mix, Westminster, 2001-11





Source: Census 2001 and 2011

The rise in private renting in London as a whole strongly reflects the fallout from the 2008 credit crunch and the way in which many potential homeowners have had to rent rather than buy due to the unavailability of credit. Westminster already had a high proportion of stock in both the private rented sector and the public rented sector. But while private renting has intensified, public sector renting has shrunk as a proportion of total stock, reinforcing the significance of the loss of C2 and D/E socio-economic groups[8] (Figures 2.14 and 2.15).

[8] Defined as: High managerial, admin & professional (A); Intermediate managerial, admin & professional (B); Supervisory, clerical and junior managerial, admin & professional (C1); Skilled manual (C2); Semi and unskilled manual (D) and Pensioners and unemployed (E).

Figure 2.14 Change in tenure, percent, 2001-11

Source: Census 2001 and 2011

Figure 2.15 Tenure change, London and Westminster, 2001-11

Tenure	London			Westminster		
	2001	2011	Change in share	2001	2011	Change in share
All households	100.0	100.0		100.0	100.0	
Owned	55.6	48.3	-7.3	34.2	30.5	-3.7
Shared ownership	1.0	1.3	0.3	0.7	0.8	0.1
Public rented	26.2	24.1	-2.1	28.9	25.9	-3.1
Private rented	15.5	25.1	9.6	32.2	39.7	7.4
Living rent free	1.8	1.3	-0.5	3.9	3.1	-0.8

Source: Census 2001 and 2011

Untangling London- and UK-wide factors from Westminster-specific factors is problematic: it may be that wider influences have intensified tendencies that were already present, and it would be imprudent to attribute change in Westminster to the presence of Prime buyers, given dramatic structural changes to the house finance market between 2001 and 2011. At most it can be asserted that the change is consistent with that which might be expected.

2.5 Social structure

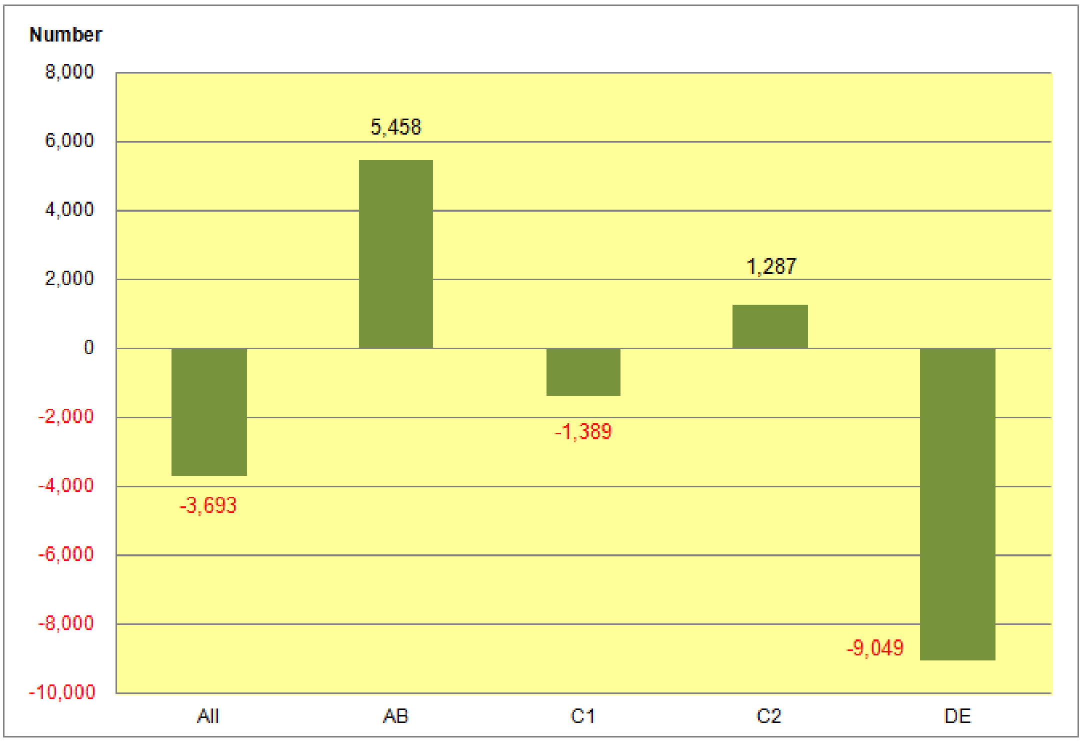
The data presented so far illustrate trends in the concentration of wealth. There is then the question about whether the presence of the Prime market is restricting the

City of Westminster's ability to meet all housing demand. Figures 2.16 and 2.17 hint that this might be the case.

Figure 2.16 shows the loss of population in social groups D and E, which is perhaps not surprising given the central London location: Westminster is expensive. But an interesting split happens with C1s and C2s: while the C2 cohort has held up, there has been a loss of C1s.

A "numbers effect" should be noted here: the C2 population is much smaller than the other social grades – just over 5,000 compared with nearly 30,000 C1s. It might simply be the case that the population of this group has effectively "bottomed out" and that fluctuations are arbitrary, rather than part of a chain of causation. We also note that there has been a structural shift in London's employment space towards white collar, or what has become known as knowledge work.

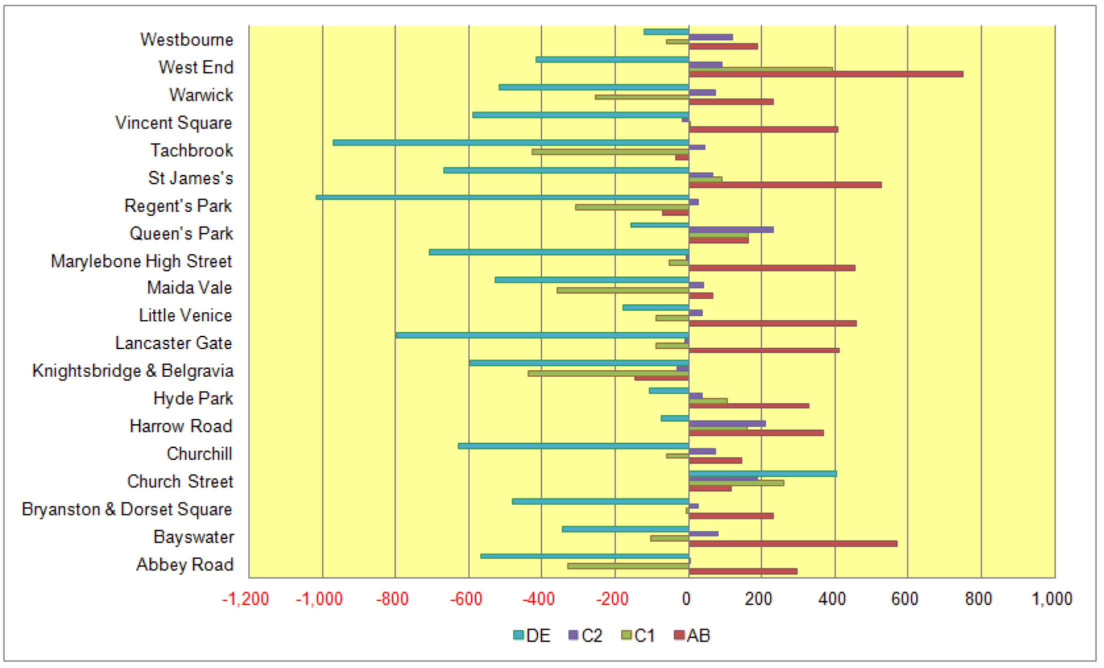
Figure 2.16 Change in population by social group, Westminster, 2001-11



Source: Census 2001 and 2011

However, this raises a potential policy issue: no matter how successful an areas is, it needs servicing and if, for example, those Ds and Es move out they may seek work closer to their new locations, rather than working in Westminster with its attendant travel expenses. Figure 2.17 gives sharp illustration of the loss of the C, D and E population: the pattern is striking and hard to mistake. Left of the axis is blue, right is red. Only Church Street ward has seen any gain in Ds and Es. The significance of this is practical rather than purely social. Any complex urban area needs managing at all levels and it falls to social groups D and E to perform the many unskilled tasks that make a city habitable. But such low paid work means that transport is an issue and if they leave Westminster it is more likely that they will seek local employment rather than commute.

Figure 2.17 Change in population by social group by ward, 2001-11



Source: Census 2001 and 2011

The question that arises here is simple enough: is the attrition of the C and D groups sustainable, without compromising Westminster's capacity to service itself? Is a numerically small, but financially overpowering, group creating issues that prevent the City of Westminster fulfilling its social and economic obligations and, in the end, prevent the borough from functioning efficiently? Taken together, the picture painted by survey indicators appears consistent with what would be expected by common perception of the geography of wealth in the City of Westminster. But a perfectly reasonable question can be asked: so what?

2.6 Does it matter?

It is perfectly reasonable to ask whether this matters in the great scheme of things. Westminster has always been an expensive place to live. Indeed, steep price rises are symptomatic of many parts of London. Change is inevitable and, indeed, London bears the hallmarks of an urban region in a constant state of flux. So why the current concern? The answer is in two parts.

First, social change is showing up even in the heavily aggregated data of national statistics so, without needing to make value judgements, it is safe to assert that there is an "issue".

Secondly, the pace of change has accelerated in the post-credit crunch period and particularly in the Prime market. The scale of transformation, if not unprecedented, is certainly highly unusual. It is not necessary to take any political stance, nor even to make strong value judgements, to grasp that such physical change, against a backdrop of social change, is worthy of close and considered analysis.

It would be wrong to pretend that the issue is not highly politically charged: we take no stance other than to provide an evidence base to support the following analysis of the Prime residential market, and the resulting conclusions and policy recommendations.

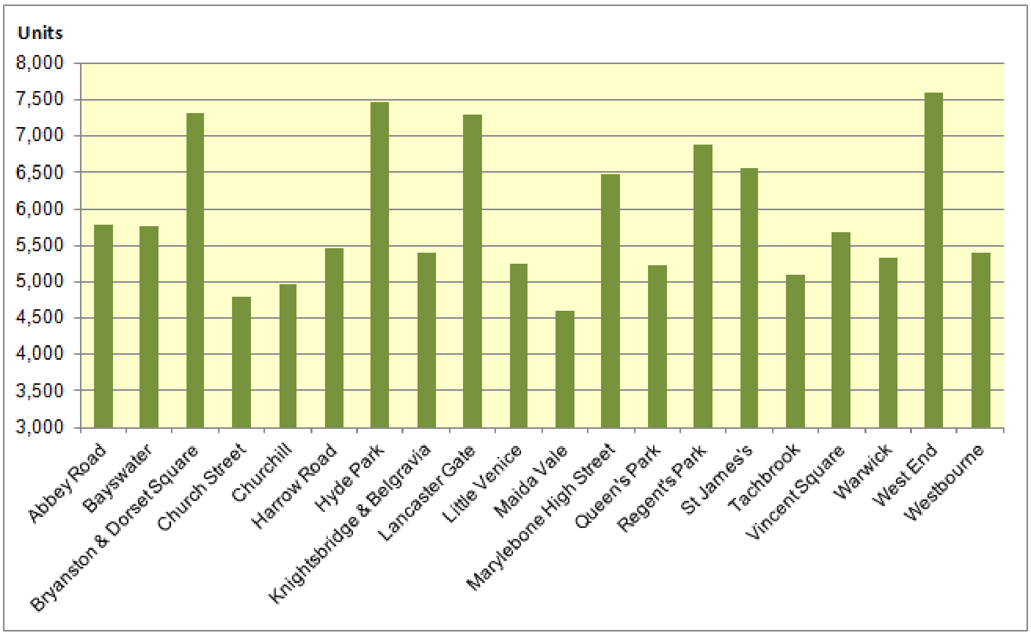
3.0 Residential stock and development

Having established a socio-economic picture of Westminster, we turn now to look at Westminster's stock of housing. We begin by summarizing how much residential stock there is in Westminster, and then how this breaks down into different types of stock. We then look at the supply of new stock, before closing with a summary of the impact of office-to-residential conversions.

3.1 Amount and structure of stock

The 2001 Census gave a stock of 102,551 dwellings in Westminster. By the 2011 Census, this figure had grown to 118,318, an increase of almost 15%. This compares with 120,066 households[9], a figure which grew by 17% (Section 2.2) suggesting an increase in shared properties. The stock of properties is dispersed across the borough's wards as shown in Figure 3.1. The concentrations in Bryanston & Dorset Square, Hyde Park, Lancaster Gate and West End are clear.

Figure 3.1 Number of dwellings in Westminster, 2011



Source: Census, 2011

The vast majority of housing stock in Westminster is flats, of which 66% is purpose built stock, and 23% is either converted from a house or part of a commercial building. Figure 3.2 shows the changing housing structure between 2001 and 2011.

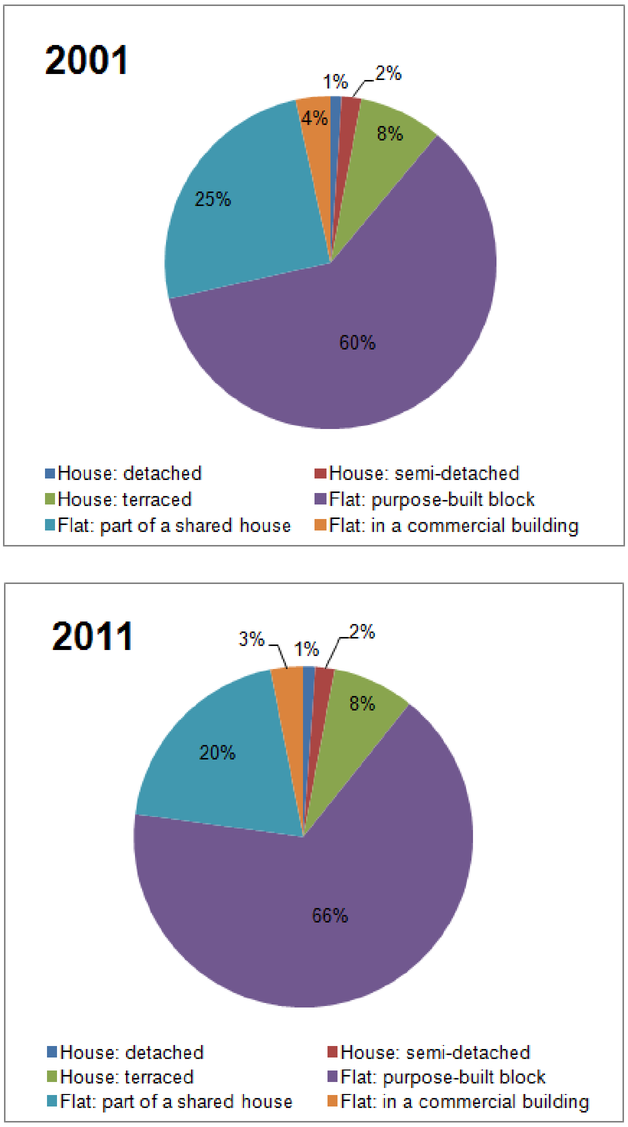
The most notable shift is the increased share of purpose-built blocks of flats from 60% to 66% (an additional 17,000 units) with a corresponding fall in flats in converted residential properties (e.g. subdividing houses), even though 3,400 units of this type were added.

The trend towards greater provision of purpose-built flats might also reflect a phenomenon seen in most areas of the UK – a preference for redevelopment rather

[9] See Section 2.2 for discussion of the difference between Census and Council Tax data.

than refurbishment. But other factors, such as office to residential conversions and opportunities to add to stock – such as at Chelsea Barracks – are also important.

Figure 3.2 Westminster housing structure, 2001 and 2011



Source: Census, 2011

3.1.1 Prime property The project brief asked what percentage of Westminster's total housing stock is made up of Prime properties. This question is not possible to answer directly and comprehensively because it would require accurate data on the value of all properties. However, we can adopt a reasonably accurate surrogate in the form of the Council Tax Band structure.

Band H relates to homes valued at £330,000 in the early-1990s. Using the Land Registry's Price Calculator, £330,000 in 1995 is the equivalent of £1,877,000 in today's money. It is therefore quite possible to say that a house valued at £330,000 in 1992 is worth £2 million today. In other words, Westminster's top Council Tax band includes all of the properties that we have defined as Prime in this report. We also know that there are 14,679 homes in Band H, and from this we can infer that around 13% of all homes in Westminster are Prime.[10]

3.1.2 Unit structure The project brief asked whether there is a relationship between Prime property and unit size, noting that the borough's average home size is 1,500 sq ft.[11] Figure 3.3 shows an analysis of Westminster property sales between 2010 and 2012. The analysis, by price band and making conservative assumptions about capital values (£/sq ft), produces mixed results.

Figure 3.3
Average property sizes by price and capital value, Westminster, 2010-12

Year	Price band and capital value				
	<£1m at £1,000 psf	£1-£2m at £1,500 psf	£2-£5m at £2,000 psf	£5-£15m at £4,000 psf	>£15m at £4,000 psf
	Average size of property - sq ft				
2010	513	898	1,538	1,967	7,467
2011	522	942	1,557	2,019	6,990
2012	528	940	1,531	1,986	6,159

In reality, not only have capital values moved over the period - meaning the values offered are only crude averages – but also there has been a substantial price premium for size, with properties of >£5 million selling for £4,000 per sq ft or more.

However, the model reflects a key empirical reality. The table shows that the average size of property sold during the period was less than the borough's average in properties of <£2 million; around the average in properties of £2-£5 million, and above the average (very significantly) in properties of >£5 million. Figure 3.4 provides the base data behind Figure 3.3.

Figure 3.4 Base data on property sales by price and capital value, 2010-12

Year	Price band				
	<£1m	£1-£2m	£2-£5m	£5-£15m	>£15m
	Total value of sales				
2010	£1,435,182,583	£760,087,623	879,781,172	660,880,000	358,400,000
2011	£1,294,856,057	£727,992,260	1,120,972,473	888,270,600	363,500,000
2012	£1,215,045,945	£765,793,698	918,531,623	905,604,298	394,150,000
	Total number of sales				
2010	2,797	564	286	84	12
2011	2,479	515	360	110	13
2012	2,301	543	300	114	16
	Average price of sales				
2010	£513,115	£1,347,673	£3,076,158	£7,867,619	£29,866,667
2011	£522,330	£1,413,577	£3,113,812	£8,075,187	£27,961,538
2012	£528,051	£1,410,301	£3,061,772	£7,943,897	£24,634,375

[10] We have not made an estimate of how this has changed over time, although our later discussion of Prime sales suggests that Prime has increased as a proportion of the whole market and this is supported by the fact that agents have, in the past, taken the top 10% of the market as a definition of Prime.

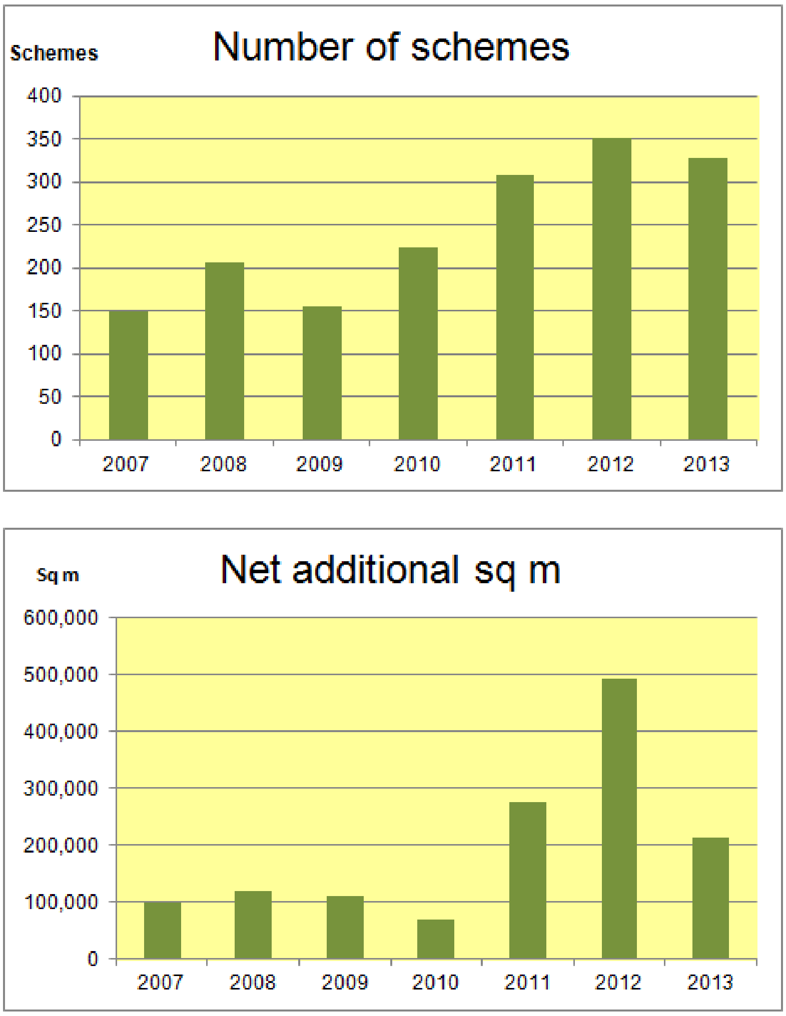
[11] The borough's average home size is officially recorded as 140 sq m. However, the market operates in sq ft, so we have adopted the same convention here to simplify comparison with market data.

3.2 Development of new stock

The following section illustrates the scale of recent residential development in Westminster, the pipeline of new space and the geography of residential development in Westminster. It also summarises recent trends in the conversion of offices to residential stock.

3.2.1 The development pipeline The graphs in Figure 3.5 illustrate the structure of the development pipeline in terms of net additional residential space. Nearly 1.4 million sq m in 1,724 schemes have secured planning consent since 2007, with a marked acceleration of additional floor area following the economic nadir in 2010. In 2012 a net additional 492,927 sq m of residential floorspace was given consent, compared with just 70,502 sq m in 2010. The 2012 figure was swollen by a very large single scheme at Chelsea Barracks, but even removing the 125,000 sq m granted consent here, 2012 was still a record year, with over 367,000 sq m of additional space consented.

Figure 3.5 Number of residential schemes and net additional sq m approved, Westminster, 2007-13

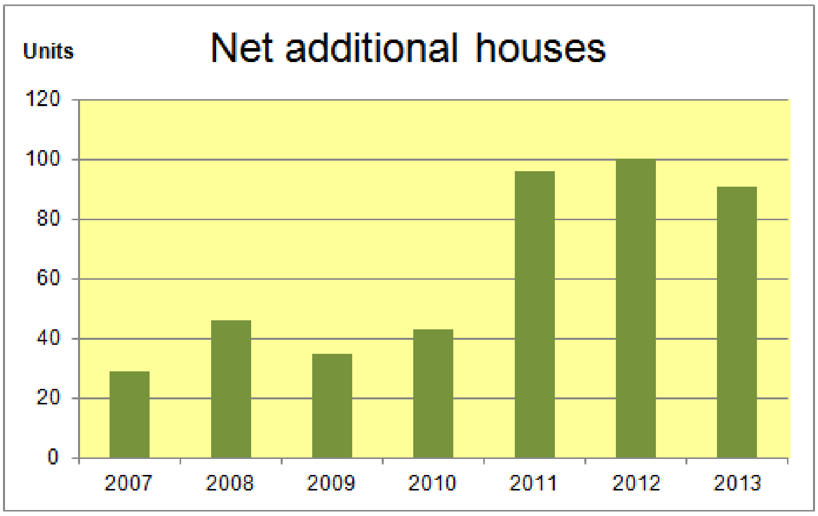


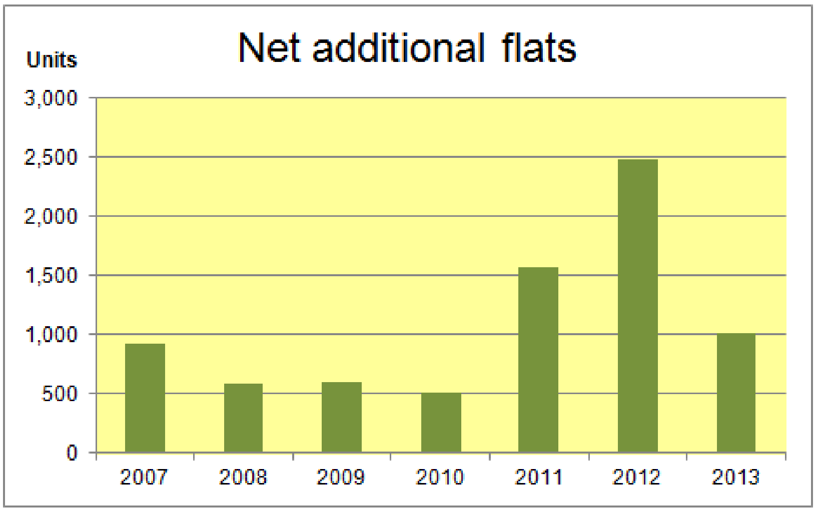
Source: Respipe, City of Westminster

Figure 3.6 shows the breakdown in development between houses and flats. As might be expected, there is an overwhelming preponderance in the development of flats. In the period 2007-13, consent was granted for a net additional 440 houses, but in the same period 7,702 flats gained consent. The tendency for Westminster's housing stock to move towards purpose built flats seems set to continue.

The data allow us to calculate an average unit size for the net addition to stock given planning consent in the period 2007-13 and to compare that with Westminster's existing housing stock. The total number of units granted consent (houses plus flats) in the period 2007-13, was 8,142 and they amounted to 1.4 million sq m between them, giving an average unit size of 171.95 sq m. This is 23% larger than the average unit size of existing Westminster housing stock, which is 140 sq m.

Figure 3.6 Net additional houses and flats approved, Westminster, 2007-13

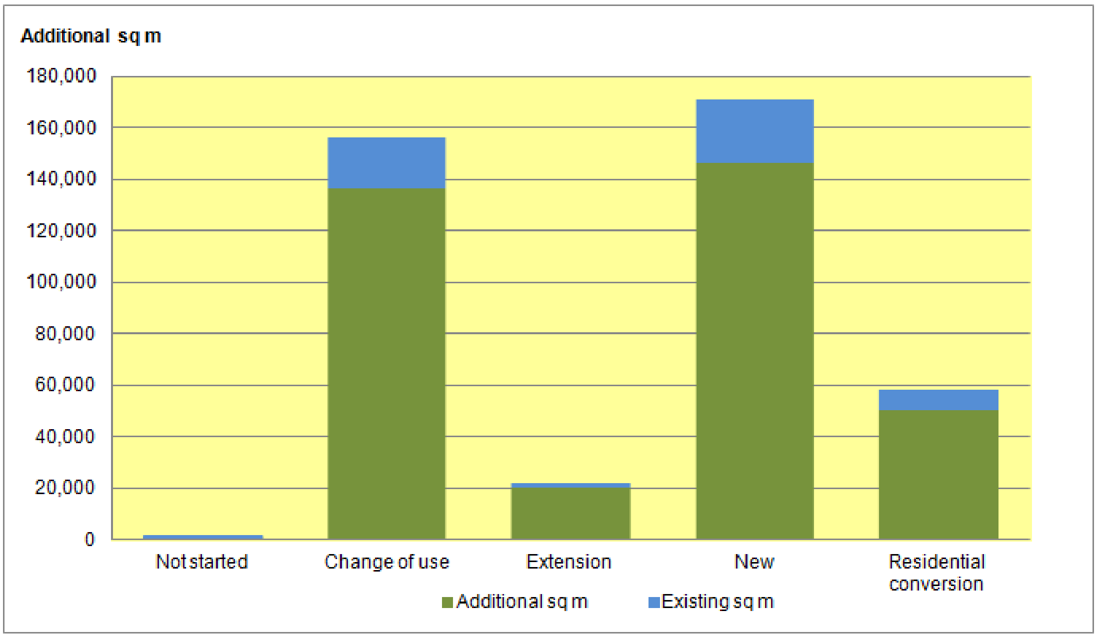




Source: Respipe, City of Westminster

3.2.2 Development completions Between 2007 and 2013, just over 408,000 sq m of residential developments were completed in Westminster. This compares to the 1.4 million sq m given consent, discussed above. Of this total, some 352,000 sq m comprised addition to stock (Figure 3.7), with both new development and change of use dominating.

Figure 3.7 Development completions, by type, Westminster, 2007-13



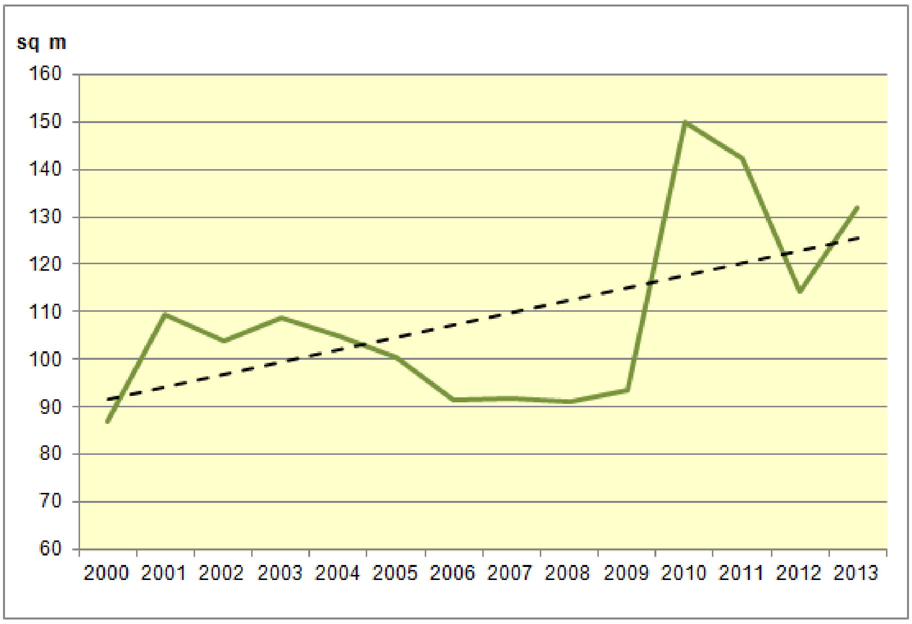
Source: Respipe, City of Westminster

One of the recurrent problems with analysing property markets is sourcing data compiled on a consistent basis. The Respipe database does not record unit size, and so for the next chart we must change sources to London Residential Research, before reverting back to Respipe.

London Residential Research has a database of new developments in schemes of more than five units in central London, dating back to 1996. In Westminster and Kensington and Chelsea, LRR also incorporates high value residential schemes that are below the five unit threshold. It is a useful source because it records the number of individual units within a scheme, rather than a simple floorspace total.

Using this database, we analysed average unit size for developments completed since 2000. This comprised 5,218 individual units and an annual average unit size varying between 87 sq m and 150 sq m. Since 2007 the size range has been between 92 sq m and 150 sq m. While we did not find a consistent increase in average unit size year-on-year, there is a clear trend towards larger units over the period, as illustrated by Figure 3.8.

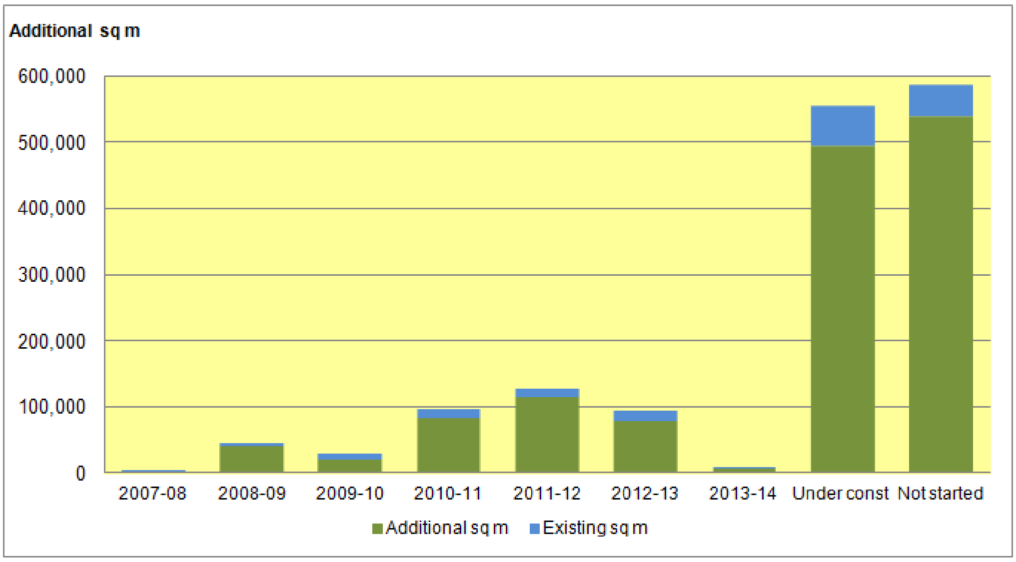
Figure 3.8 Average unit size in schemes completed in Westminster, 2000-13



Source: London Residential Research

The recent scale of delivery pales into insignificance when compared with the volume of schemes that are either under construction or not yet commenced (Figure 3.9). Although a large pipeline is usual, the amount of space under construction is striking. Put simply, there is more under construction than has been delivered in the entire period since 2007.

Figure 3.9 Completions and pipeline, Westminster, 2007-13

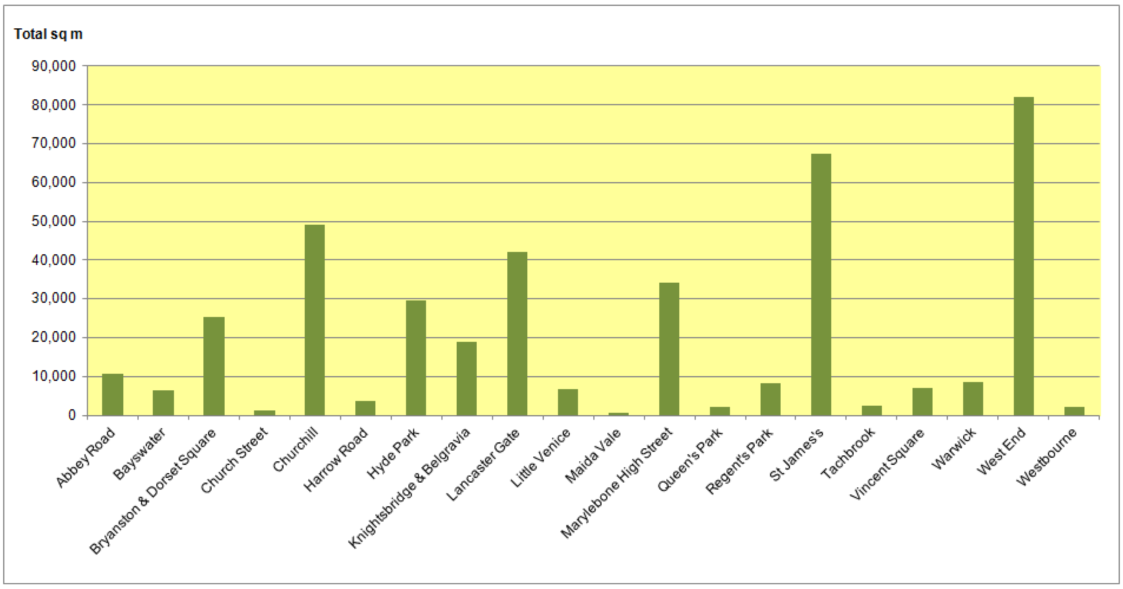


Source: Respipe, City of Westminster

We should make a note of caution here: unlike commercial schemes which, once commenced will generally be delivered within two years, residential schemes are often delivered over a much longer period, typically in phases and responding closely to economic circumstances. The high pipeline bars are therefore not *necessarily* indicative of an impending major oversupply.

3.2.3 The geography of completions The geography of development in Westminster is not especially surprising. Figure 3.10 shows development completions between 2007 and 2013, by ward. The dominance of St James's and West End (Mayfair and Soho) wards is clear, with Churchill, Lancaster Gate and Marylebone High Street, forming a second tier of activity. The level of activity in the St James's and West End wards, to some extent, reflects the pace of office-to-residential conversions occurring there.

Figure 3.10 New completions by ward, 2007-13



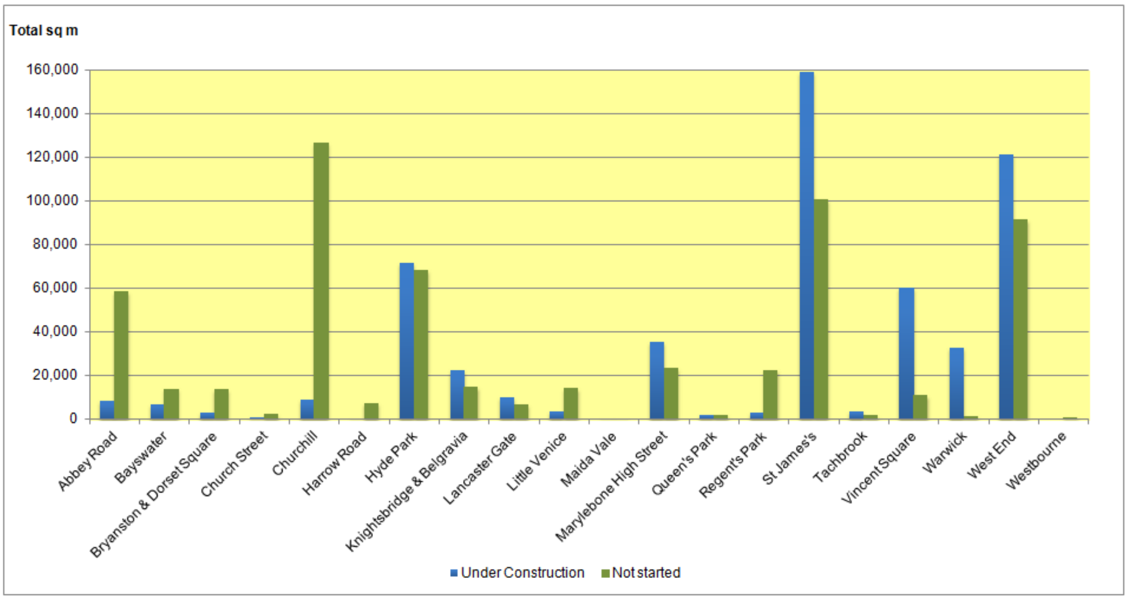
Source: Respipe, City of Westminster

When it comes to the future – space under construction and unimplemented consents – the pattern scarcely changes, except for the unmistakeable presence of the Chelsea Barracks project in Churchill ward (Figure 3.11). Abbey Road ward also has an uptick in unimplemented consents, boosted significantly by the St John's Wood Barracks scheme.

The overall pattern of residential development in Westminster is of a geographically concentrated development market, with a strong bias (except for a few very large schemes) towards central locations (for example, Mayfair, St James's) and the development of purpose-built flats.

Prime Residential Investment in Westminster

Figure 3.11 Development pipeline, 2013, by ward

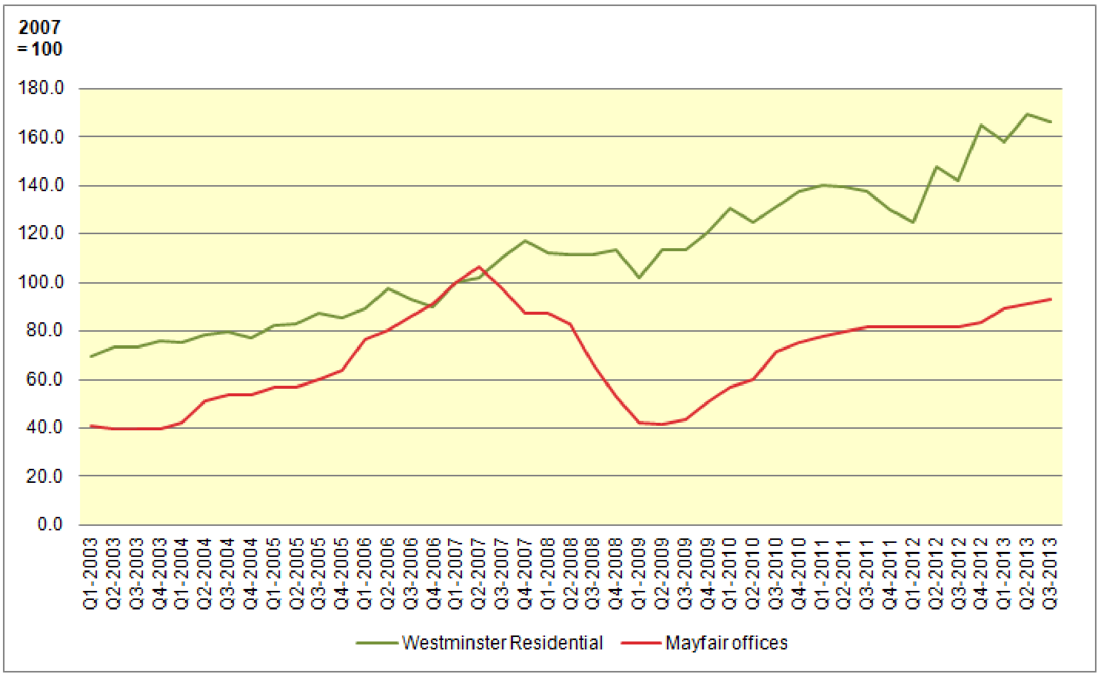


Source: Respipe, City of Westminster

3.3 Office-to-residential conversions

Over recent years, particularly in the West End, commercial office and residential values have diverged (Figure 3.12). As this has happened, so pressure has grown from the development community to increase the level of conversion activity. The past two years, 2011-13, have seen a particularly strong increase in applications.

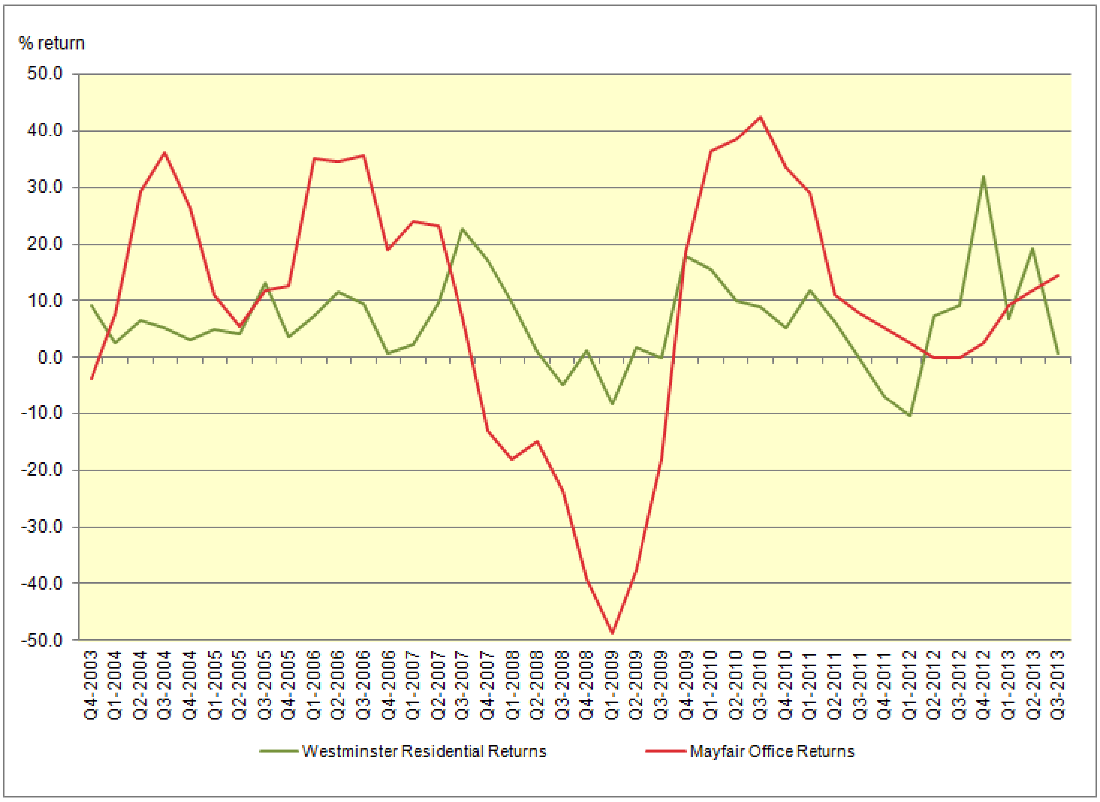
Figure 3.12 Westminster residential and office values compared, 2003-13



Source: Cushman & Wakefield Research; Land Registry

Another factor may reinforce the trend towards residential development. Figure 3.13 shows the annual return for office and residential property, and illustrates the greater volatility of office investment. It is as well to remember that overseas investors, especially, are likely to consider the riskiness of investment, particularly if they are already of a mindset to seek a "safe" way to invest.

Figure 3.13 Annual capital returns, residential versus offices, 2003-13



Source: Cushman & Wakefield Research; Land Registry

We would be cautious of over-reading this, but it is wise to highlight the historical consistency of residential as a medium of investment. Long-term investors, with an eye on security of return, are more likely to be persuaded by a stable track record.

3.3.1 London-wide conversions DTZ published research capturing recent historic trends in office to residential conversions across London.[12] The data show that between 2004 and 2012, 10,320 residential units resulted from office to residential conversions, averaging almost 1,150 units per annum, ranging between 500 and 1,500 units per annum. The pattern has not been one of relentless growth: for example, units delivered in 2010 and 2011 were lower than in 2008 and 2009.

DTZ report that between 2004 and 2012, conversions delivered the highest number of residential units in the West End (2,607), West End Fringes[13] (2,555) and Docklands (1,878).

[12] DTZ (2012) *London Office to Residential Conversions*
[13] Defined as an area north of Euston Rd and west of Park Lane/Kensington Rd/Fulham Palace Rd

Forecasts for 2013-14 suggest more residential units coming to the market across London, with c1,350 units to be completed in 2013 and c1,600 in 2014. DTZ also forecast a spatial aspect to this process, with a growing proportion of activity being focused in the City and City fringes. DTZ anticipates 1,475 units to be completed from conversions in central London in 2013-14, with 48% in the West End and West End Fringes, 40% in the City and City Fringes, and 12% in Midtown.

3.3.2 Westminster conversions Property agency H2SO has been publishing data on office to residential conversions in Westminster specifically since 2009, and has data stretching back to 2001. The firm's research area covers the borough of Westminster, with the exception of the following wards which are nearly exclusively residential: Abbey Road, Church Street, Harrow Road, Little Venice, Maida Vale, Queen's Park, Regent's Park and Westbourne.

In 2012 there were 173 applications for change of use from office (B1) to residential (C3). This compared to 167 applications in 2011. Of the 117 projects consented during 2012, 38 were implemented in the same year, resulting in the conversion of 1,170,639 sq ft of offices to residential (a 168% increase on 2011). An additional 65,305 sq ft of office space was converted during 2012 on projects consented in 2011. This gives a total of amount of space converted from offices to residential during 2012 of 1,235,944 sq ft.[14]

During 2012, a further 468,256 sq ft of conversions were consented but not implemented. These contribute to a total of 608,000 sq ft of extant, unimplemented consents.

In terms of the historic trend, the 2012 conversions mean that since 2001, well over five million square feet of Westminster offices have been redeveloped into homes. The unimplemented consents will bring this total closer to six million square feet. The conversions made between 2001 and 2011, and those started in 2012, will together result in 3,329 new residential units.[15] This is returned to in Section 5.0.

[14] H2SO (2013) *London West End Office-to-Residential Conversion Research Study 2012*
[15] H2SO *Personal communication*

4.0 Property sales

In this section, we turn to property sales in order to assess the impact of Prime sales on the overall market. We begin by quantifying the overall number and value of sales in the period 2003-13 and then look at the market below Prime (<£2 million).

We then turn to Prime properties, analysing sales in three price bands: £2-£5 million, £5-£15 million and >£15 million. The latter part of this section examines the nature of Prime buyers, in terms of their national origins and the intended purpose of their newly-acquired properties.

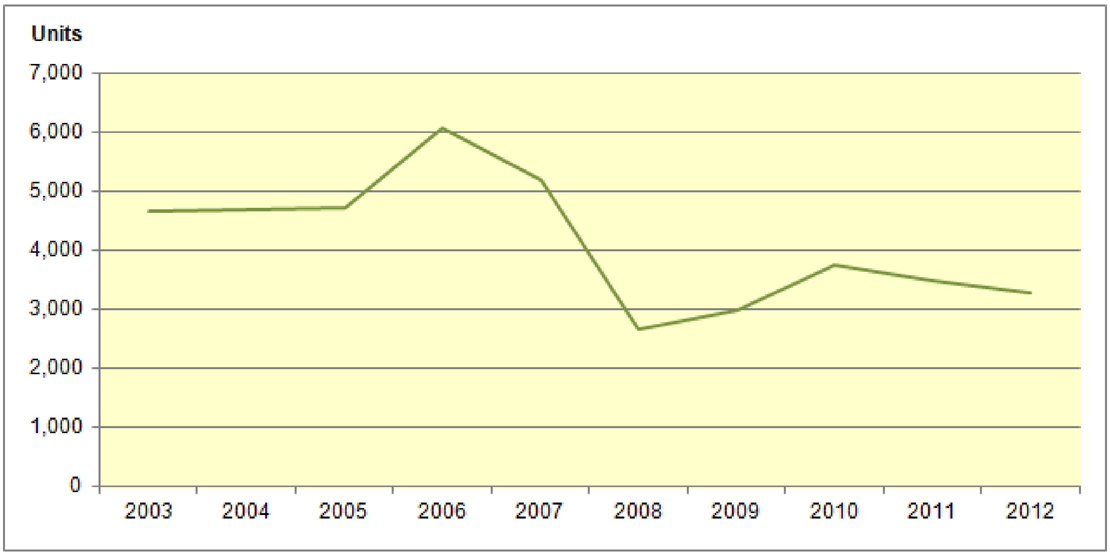
4.1 Number and value of sales

According to the 2011 Census, there are 118,318 dwellings in Westminster, including both houses and flats. Of this total, 30% are in the public rented sector, which means that the total stock of housing that could potentially change hands in the open market, (the private housing stock) is around 83,000 dwellings.

Over the ten-year period 2003-12, some 43,000 homes were bought and sold in Westminster. This total includes some dwellings that have been sold more than once, but suggests that the annual turnover averages around 4% to 5% of stock.

The number of sales in each year ranged between 2,700 and 6,000 – or between 3% and 7.2% of the private housing stock - depending on the state of the market (Figure 4.1). The highest volumes of sales were in 2006 and 2007, with a sharp decline in 2008 and 2009, and a partial recovery in 2010 and 2011.

Figure 4.1 Number of sales in Westminster, 2003-12

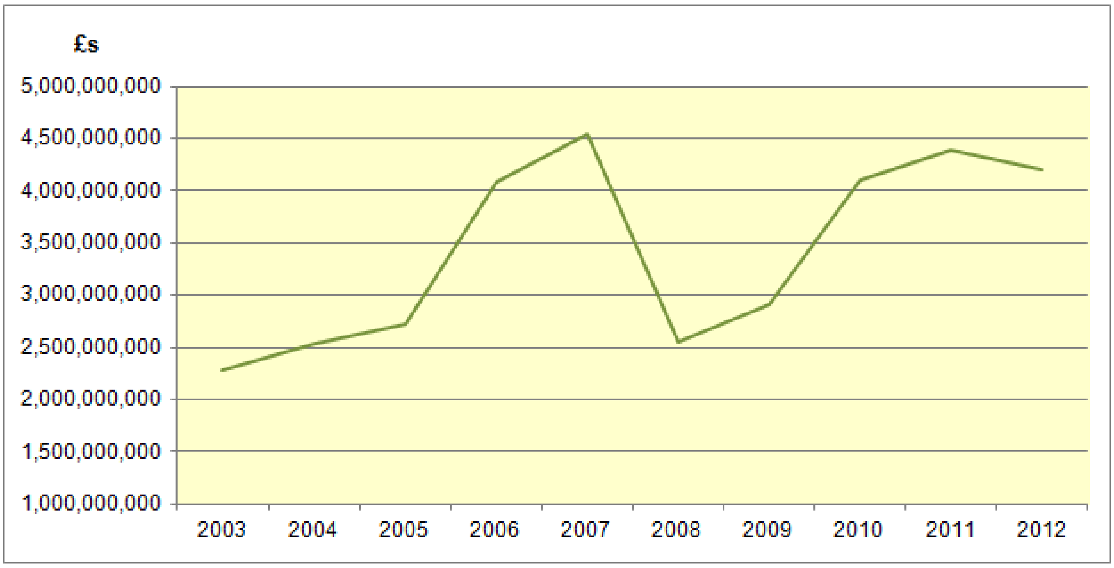


Source: Land Registry

It is interesting to note that, despite the strength of the market in Westminster, measured by price growth, the number of sales has not recovered to pre-crisis levels, suggesting perhaps that supply constraint has driven price growth. Sales data to the end of August 2013, suggest that total volumes will hover between the levels established in 2011 and 2012.

When measured by total value (Figure 4.2), the recovery has been sharp. The same amount of money was spent on Westminster residential property in 2010 as in 2006. In other words, in 2006, 6,000 sales added up to £4 billion, while in 2010, just 3,700 also totalled £4 billion. For emphasis, that is two thirds of the number of sales adding up to the same total spend – a lower number of higher value sales. By the end of August 2013, the total expenditure was already equivalent to 80% of the 2012 total.

Figure 4.2 Total value of sales in Westminster, 2003-12



Source: Land Registry

The rapid recovery in total sales value is reinforced by an analysis of average prices (Figure 4.3). Prices climbed steadily through the recession, even though the number of sales fell; and in 2013, the rate of price growth escalated.

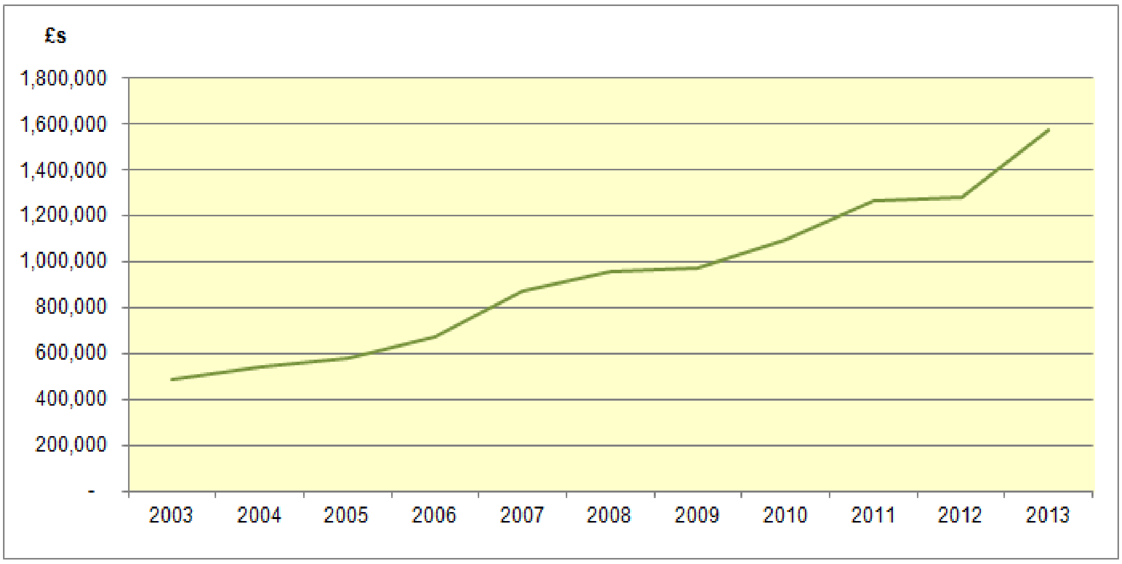
In the period since 2003, average prices more than tripled. At no time did the average price fall and, since 2008, the average price paid for a home in Westminster has risen from £875,000 to £1,575,000.

4.2 Non-Prime property sales

In order to explore the patterns in sales in a little more detail, we segmented the data by price band, looking particularly at those sales in the price bands below Prime (<£2 million). Here we found that activity levels differed markedly from the overall market.

The number of sales of <£1 million in Westminster declined from 2006 to 2008 and made only a marginal recovery to 2010 before declining again in 2011 and 2012 (Figure 4.4). The steep fall in the number of transactions in this segment of the market, seems to echo the wider London market, where activity also declined after the credit crunch.

Figure 4.3 Average sale price in Westminster, 2003-13[16]



Source: Land Registry

Figure 4.4 Number of sales in Westminster, <£1 million, 2003-12

Source: Land Registry

In contrast, while sales of £1-£2 million also began to fall after the credit crunch, they quickly recovered to pre-credit crunch levels, and continued to rise (Figure 4.5). Aside from a small post-election dip in 2011, they have remained at peak levels.

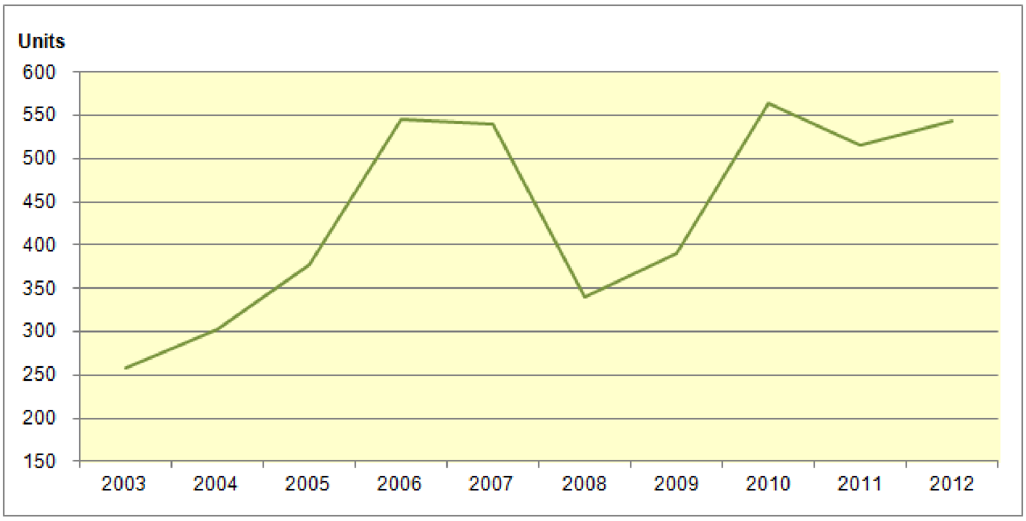
So, there seems to be a difference in market behaviour between the <£1 million and

[16] Average is defined here as the arithmetic mean. Figures given here are higher than those given in Figure 5.1 because this data set includes Prime property sales from the Lonres data base which are absent from the Land Registry data

£1-£2 million price bands, but we are cautious about drawing conclusions from this since it is, of course, inevitable that the number of transactions in the lowest price band will fall as the average price rises above £1 million. Nevertheless, the pattern in the £1-£2 million segment is confirmed in the total value data (Figure 4.6).

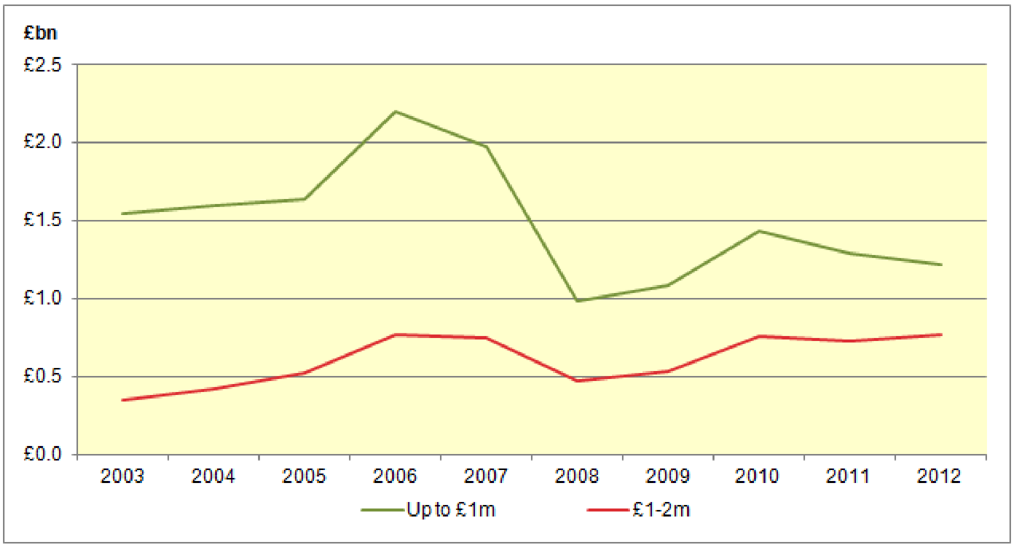
The total value of transactions below £1 million fell after the credit crunch and did not recover its peak pre-credit crunch levels. By contrast, the value of transactions of £1-£2 million, made a full peak-to-peak recovery by 2010, which has been sustained since.

Figure 4.5 Number of sales in Westminster, £1-£2 million, 2003-12



Source: Land Registry

Figure 4.6 Total value of sales in Westminster, 2003-12



Source: Land Registry

The conclusion from this analysis is that sales of £1-£2 million behave in a different way to the <£1 million price bracket. Certainly in recent years they have been more robust to economic fortune that the wider market. The question then, is how do these two segments of the market compare with patterns in Prime properties of >£2 million.

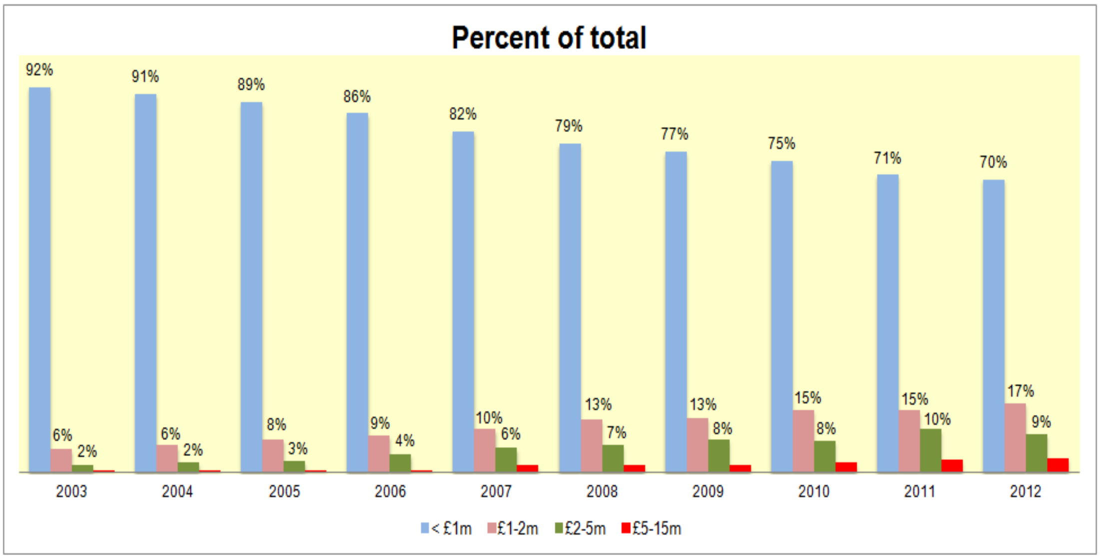
It must also be emphasised that the volume of new supply (and sales) of properties of <£2 million is much greater than those of a higher value. 92% of all sales in the period 2003-12 were <£2 million and, although the proportion declined through the decade, still in 2013, they made up 80% of all sales. This has important implications for our interpretation of the impact of Prime property. Thus, for example, in discussing the impact of overseas ownership and vacant properties, we distinguish between Prime and non-Prime properties.

We illustrate in Figures 4.7 and 4.8 the number of sales of Prime properties compared with non-Prime properties, over the period 2003-12. First, in Figure 4.7 we see that the proportion of sales >£2 million has risen from 2% in 2003 to 13% in 2012 and in the first three quarters of 2013, to 20% of all sales.

We will see in the next section that the number of sales >£2 million quickly regained its pre-crisis level and has continued to increase since 2008, whereas, as the preceding analysis showed, the number of sales <£2 million has remained at less than half that recorded in 2006.

At 13% in 2012, the Prime market was still a relatively small proportion of total transactions but the climb to 20% in 2013 is striking and highlights the stark fact that sales >£2 million are becoming increasingly common, while the number <£2 million remains broadly static.

Figure 4.7 Proportion of sales by price band, Westminster, 2003-12



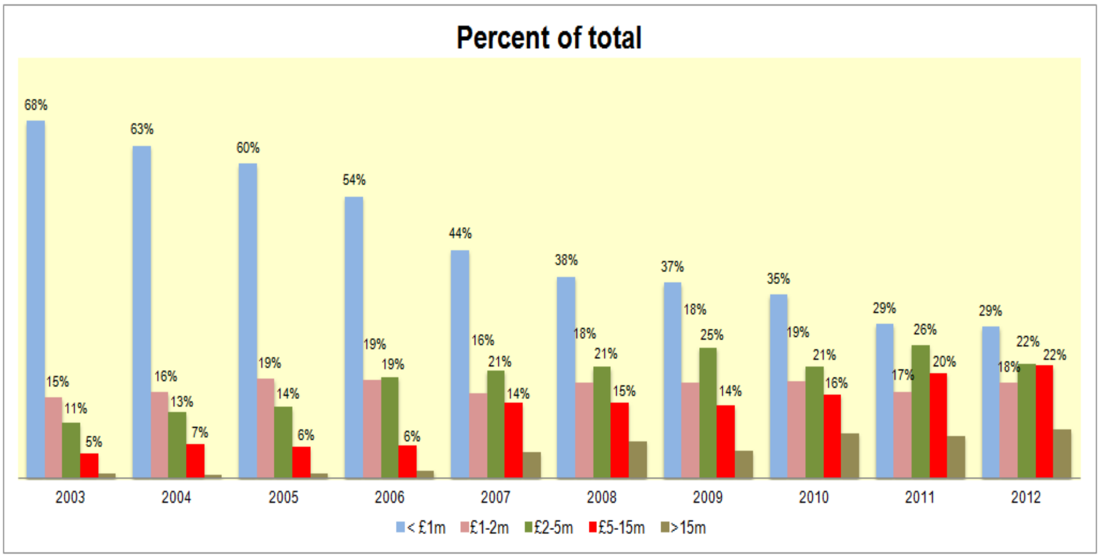
Source: Lonres

Secondly, in terms of value, sales of >£2 million have risen from 17% of the total in 2003 to around 53% in 2012 and in the first three quarters of 2013, to 62% (Figure

4.8). This seems to be explained by the growing number of sales in the highest price bands.

The value of sales in the £2-£5 million band increased almost fourfold between 2003 and 2012, but the value in the £5-£15 million band increased eightfold over the same period, while the value of sales of >£15 million increased 16-fold from £25 million in 2003 to £335 million in 2012.

Figure 4.8 Value of sales by price band, Westminster, 2003-12



Source: Lonres

4.3 Prime property sales

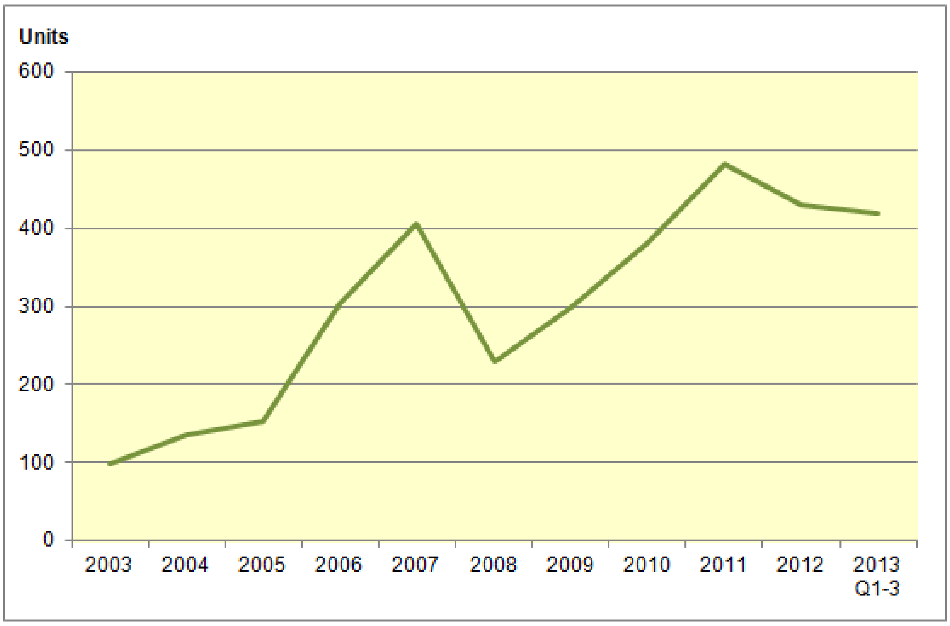
We now turn to Prime sale, homes sold for >£2 million. In the charts that follow data for 2013 reflect transactions in the first nine months of the year. Over the period 2003-13, there were 3,335 transactions valued at >£2 million in Westminster, totalling £15.4 billion of sales. That represents 8% of the total 43,000 transactions in Westminster, and £15.4 billion (or 41%) of the £37.7 billion value.

Figure 4.9 shows the number of sales of >£2 million, in Westminster, from 2003 to Q3 2013. The volume of sales grew steadily through to 2007, when the impact of the financial crisis is clear. Sales fell by over 40% between 2007 and 2008, grew steadily after 2008, with a slight dip in 2012. In the first three quarters of 2013, the Westminster market is on track to set a new market high with 418 sales in the first nine months of the year, equating to a pro rata annual total of 557, if that rate of sales is maintained. Average prices however have not risen in the same way.

Unsurprisingly, the number of sales falls significantly once prices exceed £5 million (Figure 4.10). In the period 2003-13, there were 791 transactions valued at >£5 million in Westminster, totalling £7.6 billion. That represents 2% of all transactions, but over 20% of the value of residential sales in Westminster.

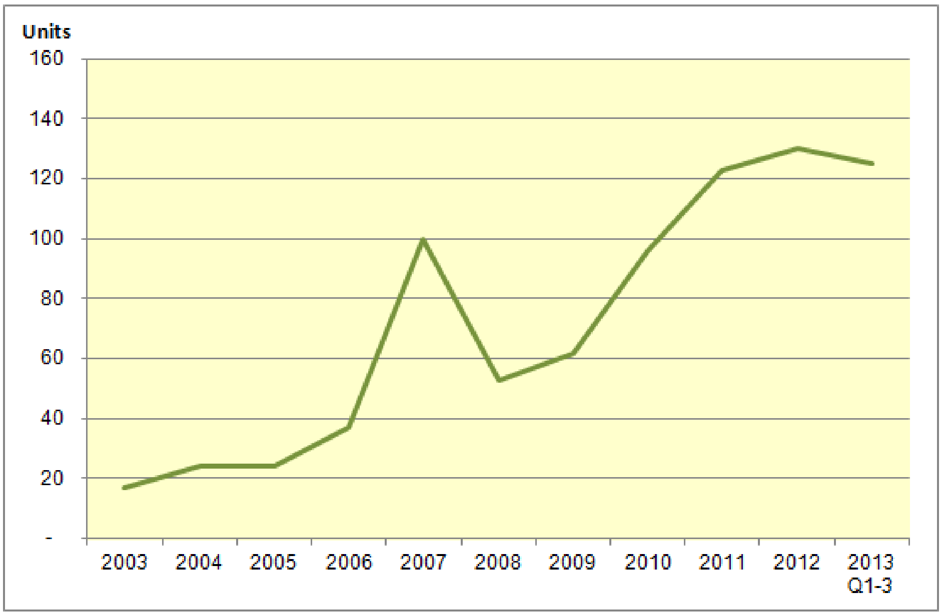
Again, there was a peak in 2007, followed by a steep decline and recovery. Sales grew from less than 60 in 2008 to exceed their pre-recession levels by 2011. Sales continued to rise in 2012 and, again, look likely to reach new market highs in 2013.

Figure 4.9 Sales of >£2 million in Westminster, 2003-13



Source: Lonres

Figure 4.10 Sales of >£5 million in Westminster, 2003-13



Source: Lonres

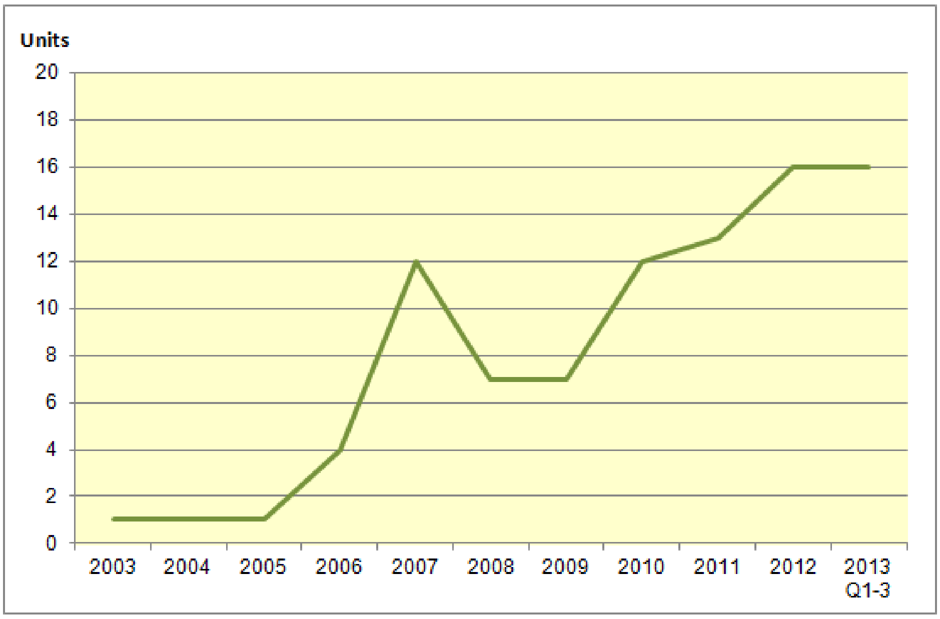
Sales in excess of £15 million are relatively uncommon. However, since 2008, they have shown strong growth in Westminster, surpassing their pre-credit crunch levels and continuing to rise (Figure 4.11).

Prime Residential Investment in Westminster

Over the period 2003-13, there were 90 transactions valued at >£15m in Westminster, totalling £2.2 billion. That represents 0.2% of all transactions, but 6% of the total value of residential sales.

Sales at this price level were rare before 2006 and proliferated in 2007. They then climbed steadily from seven in 2008 to 13 by 2011, and 16 in 2012. In the first nine months of 2013 sales matched the 2012 total. While the number of sales has risen rapidly, the number of sales in the context of the wider market remains very small.

Figure 4.11 Sales of >£15 million in Westminster, 2003-13



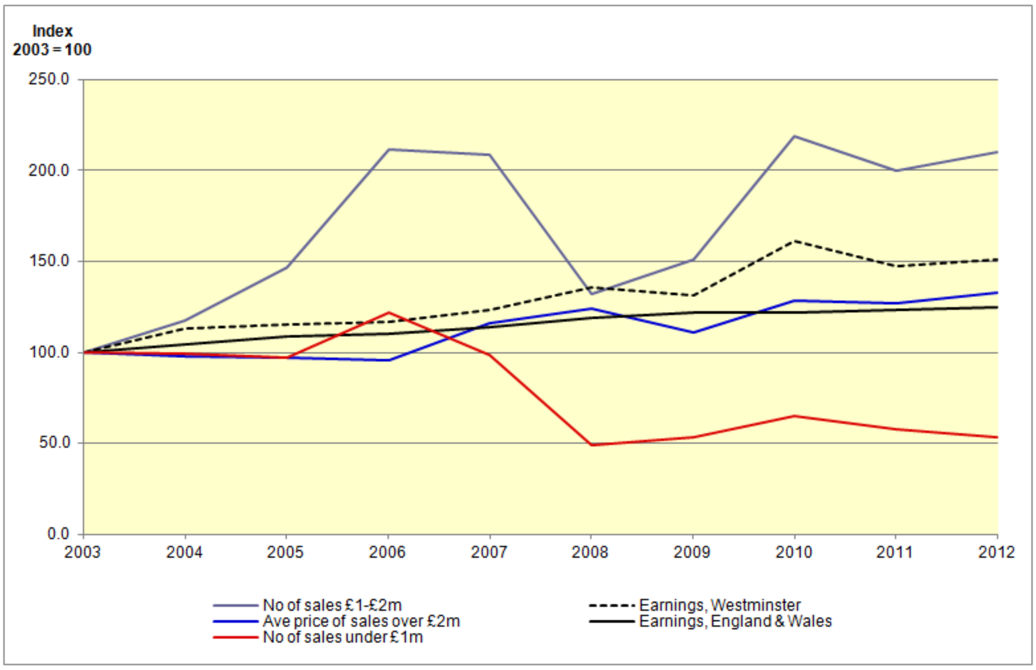
Source: Lonres

What the data show is that activity in the market for properties of >£2million has more than recovered since the credit crisis, it has escalated. Prime sales represent a significant proportion of the money spent on residential property in Westminster (40%) since 2003 and, while they remain a minority of all transactions, they are growing in number and proportion. Moreover, the rate of growth increased in 2013. By 2013, sales of >£2 million made up 20% of all transactions in Westminster and 62% of the value.

In order to understand why there are clear distinctions in the patterns of buyer behaviour in Prime residential (>£2 million), and the two segments of the main market (<£1 million and £1-£2 million), we plotted time series data comparing transaction volumes in these three property price bands, with Westminster and UK earnings and also with the price of gold – these measures being ones that might be expected to reflect sales trends, depending on whether they are responding to local or global economic signals. The results are shown in Figures 4.12a and 4.12b.

The number of transactions of <£1 million shows no relationship with earnings, in fact the number fell while earnings grew after 2008 (Figure 4.12a). The number of £1-£2 million sales increased after 2008 and showed a possible, albeit very weak, relationship with earnings in Westminster. Given the statistically questionable borough-level earnings data, we would be cautious of drawing a definitive conclusion from the data.

Figure 4.12a Transactions and average price of sales >£2m, with earnings



The increase in sales of >£2 million since 2010 might reasonably be expected to respond to global measures, since buyers are global in outlook. One way to explore this is to compare sales activity with the price of gold (Figure 4.12b).

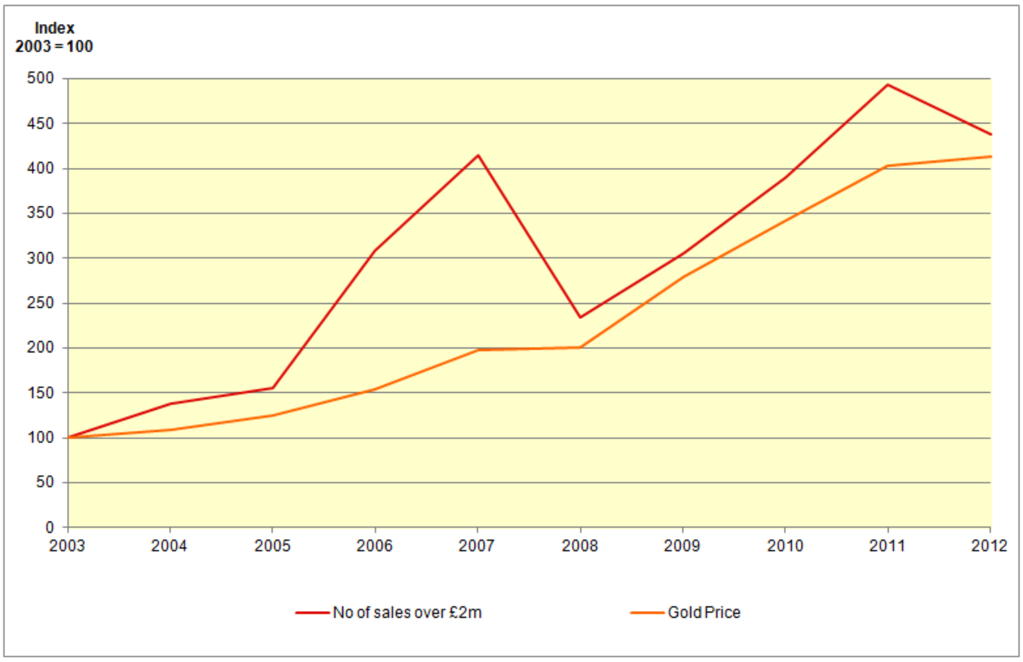
London high-value residential is often informally referred to as 'the new gold' and the most valuable locations as the 'golden postcodes'.[17] The strength of the relationship between the volume of Prime sales and the price of gold is immediately obvious in the chart and suggests the epithet is well earned (explored further in Section 5.2.3).

However, there is no such relationship with average prices of sales of >£2m, which closely mirror national earnings. This very strongly supports the notion that Westminster property is seen as a safe haven in much the same way as gold. As a commodity, the gold price directly reflects demand, and in uncertain times investors buy gold. It seems that Westminster residential property has very similar buying patterns but it is reflected in transaction volumes, rather than price. In fact, price is surprisingly stable given the strength of demand and the popular perception that overseas buyers have driven prices up. As well as providing a 'flight to safety'

[17] See for example Chris Brown blog, *Regeneration and Renewal* November 25th 2013, citing Professor Anne Power from LSE, who described central London residential property as the "New Gold", which has "become the place the world's rich store their wealth to keep it safe". See also: Badarinza C & Ramadorai T (2013) *Home Away From Home? Safe Haven Effects and London House Prices* Said Business School, Oxford November 19th 2013

opportunity, it is best to view Prime residential as a "good of ostentation", and such goods do not reflect the usual laws of supply and demand. A property that is already fabulously expensive will not become more attractive if the price falls slightly, nor will it become less attractive if it rises slightly. Very wealthy (and mainly cash) buyers are not influenced by the *price* signals, but by *security* signals.

Figure 4.12b The average price of sales >£2m and the price of gold



Notes to Figures 4.12a and 4.12b
Figures in this chart are indexed to the same base to allow comparison over time.
The data suggest that:

- *the number of sales of properties over £2m closely mirrors gold price; and*
- *the average price of sales over £2m has a much flatter trajectory, more closely mirroring national earnings.*

Inferences are drawn from these patterns in the paragraphs below, but emphasise that more detailed analysis is required to establish the robustness of the relationships.

It is an important finding that the number of transactions in the higher price brackets has grown but that average prices have not. The same is not true in the non-Prime segments of the market. Here average prices have risen over the period by a significant margin.

In summary, prices seem to vary with measures of economic well being (in this case UK earnings), but the number of transactions mirrors closely the price of gold. The prices are high, but well-informed and long-term cash buyers are unlikely to willingly over-pay. In the wider market, prices varying with earnings should not be used to infer that Westminster is more – or even simply *as* – affordable than in the past. Even if lenders lend at three-times earnings, the requirement for up to 40% deposits suggest that earnings would have to rise very sharply to make the mainstream market more affordable. This topic is returned to in Section 6.3.

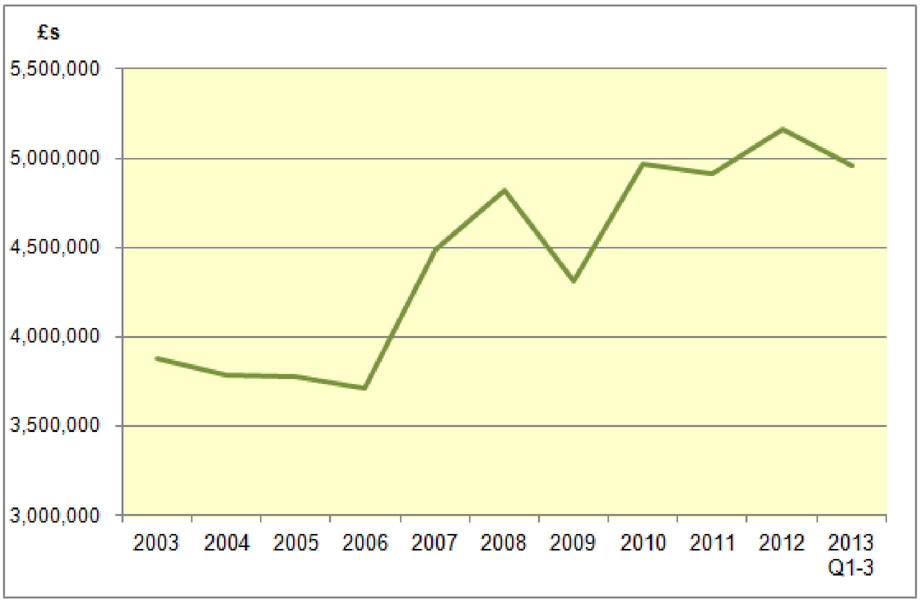
Looking more closely we see that the £1-£2 million price band behaves like neither the core market nor the Prime market. Levels of transactions showed a strong peak-to-peak recovery, but did not track gold. These buyers present an attractive target to developers, as unsatisfied demand and land shortage are combining to inflate prices more rapidly than is the case in the Prime market.

Westminster is expensive. It is getting more expensive. But it is not the top end that is driving price escalation. The most likely explanation is that structural problems within the market, rather than the presence of Prime buyers are driving prices. In common with most of London, Westminster suffers a chronic housing shortage, but unlike much of London it is a spectacularly attractive place to live. It is this dynamic that is driving "core market" prices.

We conclude this section by looking at price trends in the Prime market, in three price bands: £2-£5 million, £5-£15 million and over £15 million.

Mean prices for sales of >£2 million in Westminster generally trended upwards between 2003 and 2013, albeit modestly and with a noticeable fall in 2009 (Figure 4.13). In fact, the growth of 28% in the whole period was almost all established between 2003 and 2008. Since then, other than a fall and recovery in 2008-09, the change has been moderate. However, it is important to note that the average price is subject to fluctuations in the size and location of stock that comes to the market with wide variations in price on a relatively small number of transactions.

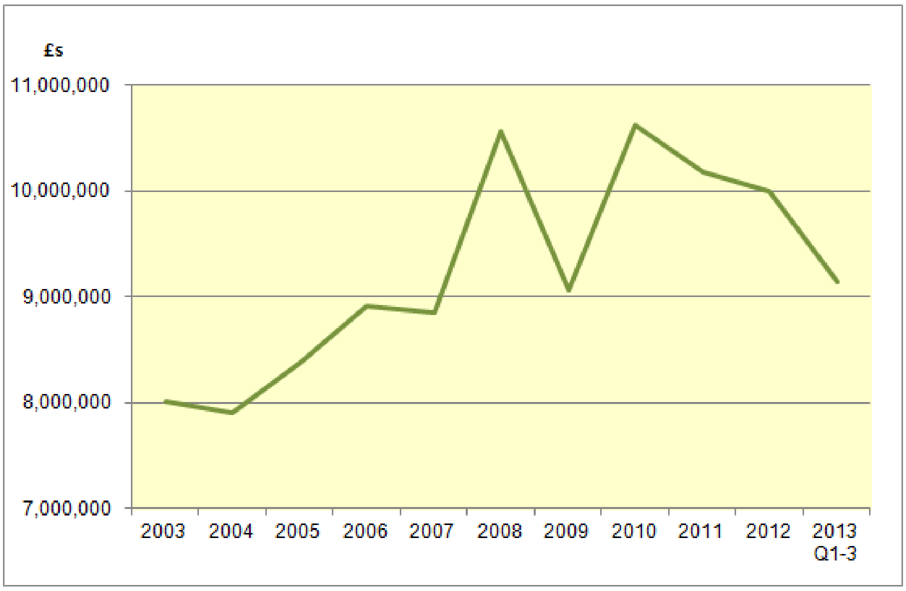
Figure 4.13 Mean sale price for homes of >£2 million in Westminster, 2003-13



Source: Lonres

Unlike the volume of sales, there was no discernible dampening of prices following the financial crisis, and once the mean price had recovered from a dip in 2009, it remained relatively stable. The mean price of sales of >£2 million in the first three quarters of 2013 is slightly down on the previous year. When we look only at sales of >£5 million (Figure 4.14), the most recent price trend is clearly downward, with a mean value of £10.6 million in 2011, slipping to £9.1 million by Q3 2013.

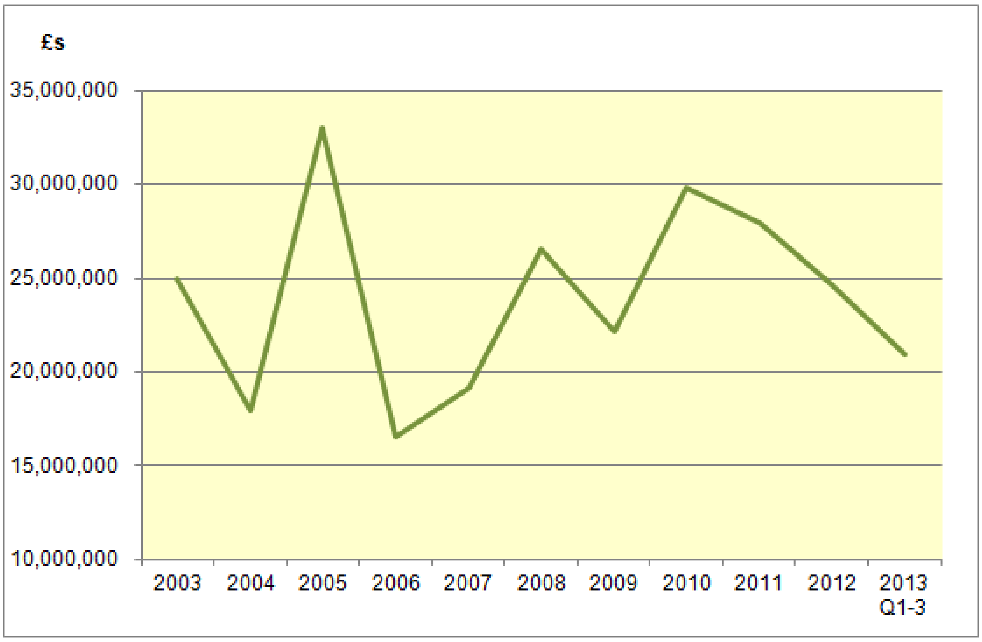
Figure 4.14 Mean sale price for homes of >£5 million in Westminster, 2003-13



Source: Lonres

As noted, sales of properties of >£15 million are relatively infrequent – and consequently volatile – particularly those that are picked up by conventional monitoring of transactions (Figure 4.15). Based on data from Lonres, there has been an average of eight transactions per annum over the past decade, but in the past four years, there have been between 12 and 16 in this price bracket.

Figure 4.15 Mean sale price for homes of >£15 million in Westminster, 2003-13



Source: Lonres

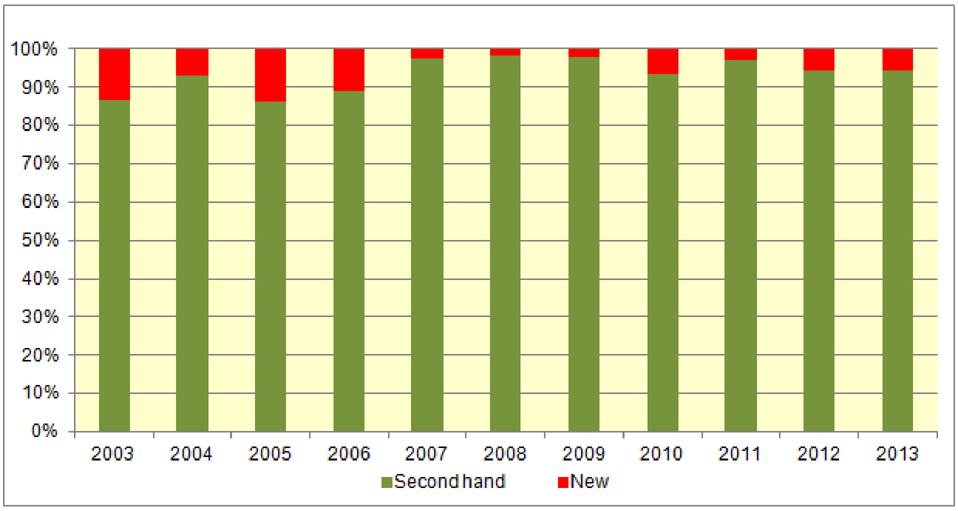
On the evidence that we have, the mean value of a Super Prime transaction in Westminster has fallen from £30 million in 2010 to £21 million in 2013. It is the volume of these transactions that has boosted the total spend, not the mean price.

We know that prices per sq ft have risen, so this downward trend suggests that the average lot size has dropped. However, as we said earlier, it is based on a small number of transactions, so inferring trends can be misleading. A review of estimated price per square foot, based on agents' opinions, might be a more instructive data source (see Section 3.1.2.)

4.3.1 New/existing market The project brief asked whether Prime activity takes place mainly in the existing housing market, the new housing market, or a combination of both. Inevitably, the answer is the combination; the question therefore is: where is the greatest activity?

Land Registry data for the period 2003-13, show that the vast majority of transactions in Westminster take place in the existing, or second hand market (Figure 4.16). In 2005 and 2006, 14% and 11% of sales (642 and 634), respectively were of new properties; the proportion fell to 2% (44 and 60) in 2008-09, and was 6% in 2012 (179) and the first half of 2013 (117).

Figure 4.16 New and second hand sales in Westminster, 2003-13



Source: Land Registry

Savills' analysis of sales in 2012-13 for prime London (using a geographic definition of prime which includes parts of Camden, Hammersmith & Fulham, Islington, Kensington and & Chelsea, Richmond, Tower Hamlets, Wandsworth and Westminster), suggests that the proportion of new build sales is higher, at 22%, although it is still dwarfed by the number in the second hand market.[18]

The distinction between new build and second hand is an important one because the types of buyer prevalent in the two segments of the market are quite different.

[18] In other words, new build sales make up a higher proportion of sales in the areas that fall within Savills' definition of prime markets (e.g. Canary Wharf).

This is one reason for the considerable confusion and apparently conflicting data on the number of properties sold to overseas buyers. It is a fact that overseas buyers are far more dominant in the new build market. We return to this in Section 4.4.1.

4.4 Buyer profiles

In this section we summarise buyers in terms of their national origins and their reasons for purchase, i.e. occupation as a main residence, second home or letting. Published data on buyer types can appear contradictory and we highlight three reasons why statistics may appear to vary.

- Geographic definition of prime: is it referring to central London only, or does it include all prime areas of Greater London?
- Price threshold: we have defined Prime as >£2 million, but some definitions use the top (most expensive) 10% of sales and others rely simply on location and include all transactions within a *prime location*.
- New/second hand: some data include all types of property but some statistics refer only to resale or to new build.

In our analysis we have used various published and unpublished statistics to show the range and arrive at a fair estimate.

4.4.1 Origins of overseas buyers Before proceeding, it is important to reflect on exactly what is meant by an "overseas buyer". The reason for this is that much media coverage of the prime market focuses on the role of overseas buyers, and the extent to which they leave properties unoccupied or under-occupied.

Knight Frank[19] raises the question of "*what is a foreign buyer?*" by asking the question: "*Is a French banker who has lived and worked in London for five years a foreign buyer when he decides to stop renting and buy his first home?*" In its research based on sales of >£1 million in central London, Knight Frank found that 72% of overseas buyers were resident in the UK.

Figure 4.17 shows the combined data from three agents active in the central London prime residential market: Carter Jonas, Hamptons and Savills. Taking an average of their data, 57% of sales in the years 2011-13 were to overseas buyers, leaving a balance of 43% to UK buyers. This includes all transactions as data on the origins of buyers is not available exclusively for the >£2 million price band.

The differences between the three agents were relatively small although we noticed that, where data are quoted for the whole prime London market, rather than the central London prime market, it shows a greater proportion of UK buyers. This reflects the fact that in the areas of prime London beyond the centre, areas such as Richmond, the buyer base is more likely to be of UK origin.

Data from the 2011 Census confirm that the proportion of residents in Richmond born overseas is around 25% compared with over 50% in Westminster or Kensington and Chelsea.

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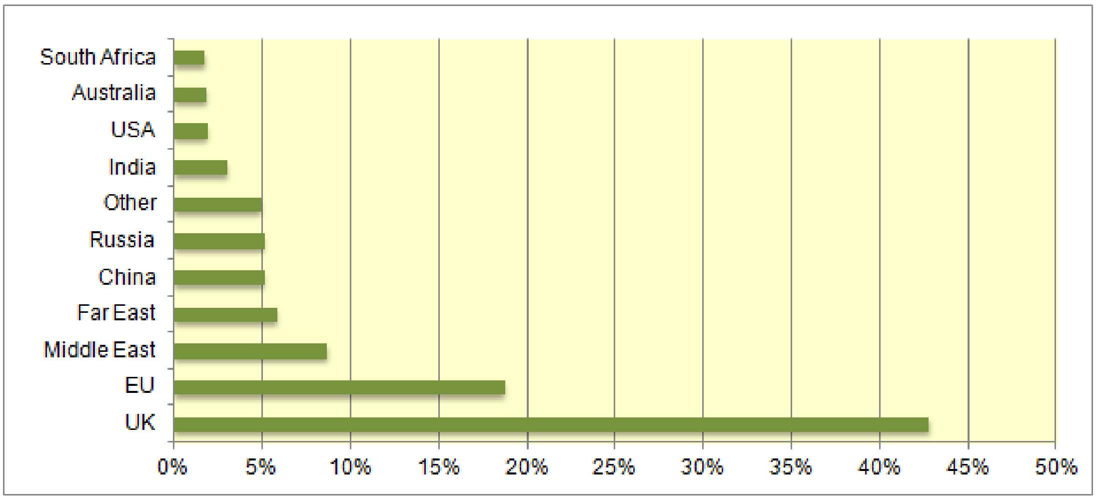
[19] Knight Frank (2013) *International Buyers in London*

Figure 4.17 Origins of purchasers of central London prime property, 2011-13



Although we were not able to obtain data segmented by price band, its reasonably safe to assume that in certain markets (such as Knightsbridge and Belgravia), the great majority of transactions will be >£2 million. Within central London there are significant variations between areas. For example, according to Savills, 69% of buyers in Knightsbridge in 2011-12 originated from overseas; while in both Belgravia and St John's Wood, 60% of buyers were from overseas.

In Mayfair, the proportion of overseas buyers was lower, at 52%. Data from Hurford Salvi Carr, a niche agent active in City, Midtown and Docklands (in other words, within central London but outside the core West End), reported that 40% of its buyers in 2013 were of overseas origin.

There is considerable complexity involved in these numbers and it is fair to say that they are open to interpretation. However, to summarise these various data sources, it is safe to assume that over half of all buyers in much of prime Central London in between 2011 and 2013 were of overseas origin but that the proportion is significantly higher in Knightsbridge, Belgravia and St John's Wood and lower in the City fringes and Midtown. We should note here that we were not able to obtain data that distinguished between properties by price band.

Savills' historic data on overseas ownership in London shows that the share of London prime residential property sold to overseas buyers in recent years is consistent with trends dating back to the 1980s. The proportion of all prime sales made to overseas buyers was over 50% in 1984; 1985 and 1997.

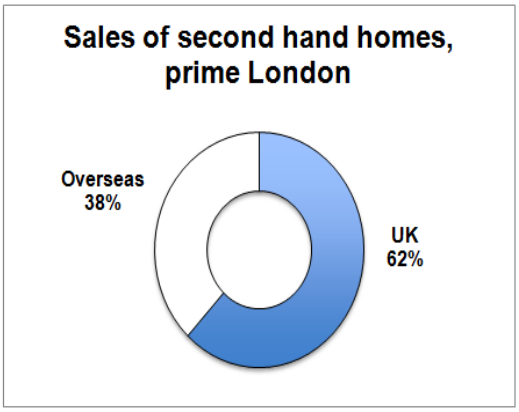
Savills point out that their definition of prime London was smaller at that time, being confined to central London. After expanding their definition of prime to include a wider London geography, the proportion of overseas buyers settled at around 25-30% during 2005-10, and rose to 38% in 2012.

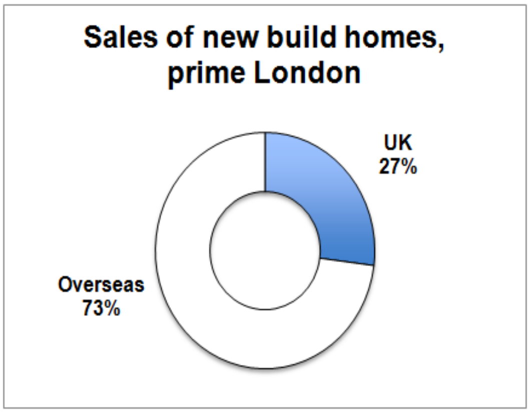
One of the aspects that has caused confusion in the reporting of data on overseas buying is that there are substantial variations between the proportions of overseas buyers involved in sales of new build and second hand properties.

Prime Residential Investment in Westminster

Figures 4.18 shows data from Savills[20] for 2012-13. The data clearly show that overseas buyers are far more prevalent in the new build market.

Figure 4.18 Sales of second hand and new homes, prime London, 2012-13





There are also strong patterns in the origins of overseas purchasers (Figure 4.19). While it is right to point out that the majority (78%) of sales were in existing rather than new build properties, the weight of overseas buyers, and particularly Asian buyers, in the new build market is striking. Half of the buyers of new build prime London property are from Asia, made up of 32% from the South Asian sub-continent and 18% from China and Hong Kong.

Figure 4.19 Origins of purchasers of London prime property, 2012

Origin	% Re-sale	% New build	All
All	**78**	**22**	**100**
United Kingdom	48.0	5.7	53.7
Western Europe/Scandinavia	12.4	1.2	13.6
China & Hong Kong	1.6	5.8	7.4
Australasia & Oceania	2.4	4.0	6.4
Middle East & North Africa	2.8	2.6	5.4
Eastern Europe & Russia	3.2	1.9	5.1
South Asian Sub-continent	3.1	10.3	3.4
North America	3.0	0.3	3.3
Other	-	-	1.7
Total Non-UK as % of each	**38**	**73**	**46**

Source: Savills (2013) *The World in London*

4.4.2 Reasons for investing Having described the origins of buyers, we now turn to their reasons for investing, or ‘buyer intentions’. One way to generalise is to divide buyers into three categories: main residence, second home or investment (sometimes characterised as: buy to live; buy to leave and buy to let).

Second home owners include those with more than two homes around the world, some of whom will visit only rarely, as well as those who use a London property

[20] Savills (2013) *The World in London*

regularly and consistently for much of every week but consider another property to be their primary home. In this category it can be helpful, where possible to distinguish between UK and overseas buyers. We have, where possible, looked more closely at the intentions of overseas buyers because of the perception that an overseas owner is more likely to leave a property vacant for long spans of time.

Knight Frank research on sales of central London properties of >£1 million found that, in the 12 months to June 2013, 49% of all sales were to overseas buyers and that 72% of those overseas buyers lived and worked in London.[21] Moreover, of the overseas buyers not resident in the UK, most were "*investors, looking to earn an income return by letting their properties to Londoners*". Thus, of all the properties sold in central London for >£1 million in 2012-13, fewer than 7% were bought by overseas buyers as second homes.

Savills show that the vast majority of residential sales in Greater London are not prime, nor are they new build or sold to overseas buyers for use as second homes.[22] "*Only 750 of the 97,000 Greater London sales in 2012 were prime new build sales to international second home buyers. Occupation of these residences is expected to be lower than 100% but most will not be left empty*". Moreover, they state that most international purchasers in London are buying their main residence.[23] According to Savills, the overwhelming majority (62%) of all sales in prime markets are to people buying main residences. In line with London's demographic structure, one-third of these residents are born overseas.

Savills analysed all prime London sales in 2012. This came to a total of 32,050 transactions – underlining that this is a far broader definition of prime than the one adopted in our analysis (sales of >£2 million). The data show that of the 5,150 new build properties sold to overseas buyers, 15% were intended as second homes and the balance of 85% were intended to be occupied full-time, either as main residences or as buy to let.

However, in some of the highest value locations in central London, Savills data show much higher rates of sales to overseas buyers and, in the case of Knightsbridge, "second home" is the principal reason for purchase (Figure 4.20).

Figure 4.20 Savills purchasers, prime London, 2011-12

Buyers and motive	Knightsbridge	Belgravia	Mayfair	St John's Wood
International buyers	69%	60%	52%	60%
Principal reason for purchase	Second home	Main residence	Second home	Main residence

Source: Savills (2013) *The World in London*

In its analysis of buyers in the central London markets of City, Midtown and Docklands in 2013, Hurford Salvi Carr found that 57% of its sales were to owner occupiers, 10% to second home owners and a third were investments intended for

[21] Knight Frank (2013) *International Buyers in London*
[22] Savills (2013) *The World in London*
[23] Savills (2013) *The World in London*

the private rental market.[24] Those figures are for all sales, new and second hand. But the figures for new build exclusively were very different: 80% of their new build sales were for investment and destined for private rental.

Two very high profile central London developments have coloured much of the press coverage on overseas buying in prime central London. These are One Hyde Park and Battersea Power station. Our consultations (reported in Section 5.0) found that One Hyde Park is primarily owned as second homes and that occupation rates are very low at around 25% at any one time, while the Battersea Power Station development launched in January 2013, completed 600 sales in four days, of which 480 were secured in the Far East. The intentions are not yet known but it seems likely that many of these will have been bought as investments.

To sum up buyer intentions, there is no doubt that a large proportion of new build stock in central London is sold to overseas investors who will let it to residents and workers in London. Most of these properties are not prime as defined by price band, but for many commentators all of central London is defined as prime. This has been an important change in recent years. The accepted definition of a prime location has extended to cover a far wider area.

The vast majority of new build properties are sold for <£2 million (92% of sales, 2003-13 as shown in Section 4.3), and the greatest increase in activity has been in the £1-£2 million price band. It is this price band that has been the focus of overseas investment.

Are things beginning to change? Research by Savills suggests a shifting balance. Recognising the role of overseas money in driving strong price growth, Savills suggests that "*the strongest price growth in the capital is now being driven by needs-based equity-rich buyers who are resident in London full time*".[25]

4.5 The international dimension

The project brief asked whether other world cities are facing issues similar to London with respect to prime property, and what their policy responses had been. It is a truism that prime property buyers are global in outlook, and it might therefore be expected that London's prime market symptoms are replicated in other cities.

Unsurprisingly, those with potentially much to lose are selective in the kind of location in which they invest. Christie's International Real Estate says: "*Crucial to the success of global cities and the attraction of foreign capital is political stability and transparency.*"[26] London is not the only choice (Figure 4.19).

> *As a result of the multi locational appetites of HNWIs[27], the percentage of luxury sales for properties that are second or third homes in the 10 cities surveyed is high. Evidence of this trend appears in London, where the majority of buyers have additional properties.[28]*

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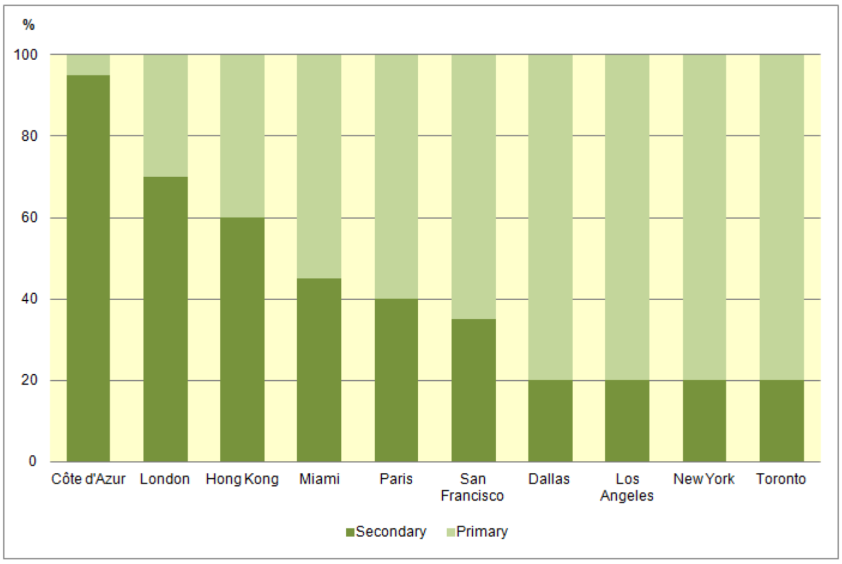
[24] Hurford Salvi Carr (2013) *Midtown, City and Docklands Residential Review 2013*
[25] Savills (2013) *Prime London Residential Markets*
[26] Christie's International Real Estate (2013) *Luxury Defined: an Insight into the Luxury Residential Property Market*
[27] High Net Worth Individuals
[28] Christie's International Real Estate (2013) *ibid*

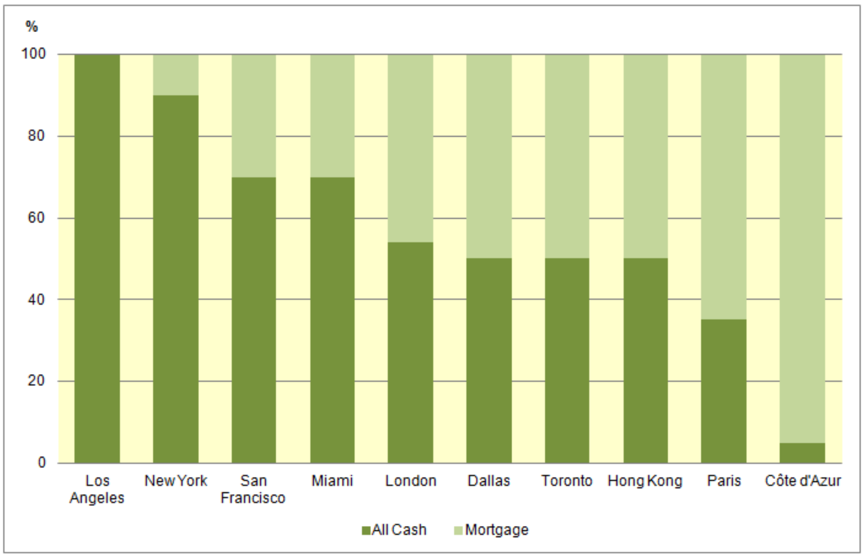
Christies define a luxury sale as one of >$1 million, which is a much wider definition of prime than the >£2 million figure used in this report.

Figure 4.19 Principal versus additional prime residences



Source: Christie's International Real Estate

Figure 4.20 Financing luxury homes



Source: Christie's International Real Estate

Prime buyers are less subject to the whims of the property market cycle, and provided that there is a degree of protection from market gyrations: "*The luxury housing market remains insulated from money flows and political shifts, as these concerns are less likely to determine the purchase of a trophy home for the ultra-high net-worth population around the globe".* In particular they can be immune to the vagaries of availability of finance. The most expensive cities, in terms of the luxury market, are 'buy-for-cash' cities: "*Whether buyers are foreign or domestic, cash transactions predominate at the higher end of the market"* (Figure 4.20).

It is thus reasonable to posit that cities that are attractive to prime buyers have little to worry about in terms of keeping those buyers.

4.5.1 A source of concern? And yet it is not difficult to find evidence of places not only showing concern at the presence of wealthy and/or overseas ownership but – more to the point – responding with fiscal measures. The following is a summary.

- In 2011, Singapore introduced a 10% extra stamp duty on overseas buyers, as well as an extra 3% on second home buyers, ostensibly to cool an overheating market.[29]
- In 2013, Singapore also introduced a rule that mortgage repayments may not exceed 60% of a buyer's income.[30]
- In 2011, New York State introduced a "Millionaire's Tax" at a marginal rate of 8.82 % applying to individuals who make more than $1 million and married couples who make more than $2 million - about 32,000 tax filers. Debate is currently taking place about whether to extend the measure beyond 2014.
- Commentators claimed that millionaires were "abandoning' California because in addition to a federal 51.9% marginal tax on earnings over $1 million there was a state top-tier marginal rate of 13.3%, prompting the Governor of Texas to run commercials on California TV inviting people to move to Texas.[31]
- In France, President Hollande's government proposed a 75% tax on earnings over €1million, allegedly prompting substantial selling of luxury property, sellers moving to Belgium and other countries. Hollande has also proposed heavy increases in Capital Gains Tax.
- To combat an overheating property market, in 2012 Hong Kong imposed a 15% stamp duty for corporate and non-resident buyers and extended a tax on the sale of homes held for under three years; this year sales tax was doubled for sales of HK$2 million.

In the New York Times, Bradley R. Schiller, a professor of economics at the University of Nevada, Reno said that although high net worth individuals may not wish to draw attention to the fact,

> *Taxes have to be a very important part of the equation…If you are talking about an income tax of 13 percent on a millionaire in California and an income tax rate of zero percent on a millionaire in Nevada, to argue that it doesn't affect a millionaire's locations decision is to say all millionaires must be stupid.*

While we would argue that this is overstating the case, in quite a colourful manner, it is nevertheless true that there are situations where the circumstances will overcome the marginal tax rate (for example, the need for a Hollywood business to be located in Hollywood). But it would be unwise to assume that tax rates are unimportant.

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[29] Propertywire, 16th December 2011
[30] Reuters, 20th June 2013
[31] New York Times, 6th February 2013

This is significant because in December 2013 the UK government announced that Capital Gains Tax will apply to overseas sellers, a group not previously liable. This has prompted media comment, much to the effect that the action is political in nature.

This further illustrates a truth shown in the list above: measures that target wealthy homeowners in recent years have done so for reasons unrelated to the activity of the wealthy in the residential market. A generalised boom needed cooling in Singapore, while New York State needed to plug a budget deficit. There is no particular sign that measures which target wealthy investors are made for anything other than reasons of policy pragmatism: they are a politically easy way to achieve fiscal ends.

It is also worth noting that, within Europe, the UK was unique in not taxing overseas sellers (until the Chancellor's 2013 Autumn statement). While a common argument is that imposing such a tax would drive investors away, the practical reality is that there is little by way of empirical evidence to support this and reason suggests that simply bringing the UK into line with Europe, while reducing its advantages, would not eliminate them.

A key conclusion is that a stable society with a strong sense of the rule of law, fairness and openness is set fair to attract investors. London maintains these features, and they help to offset the disbenefits of higher taxes (to a degree).

Summary Detailed empirical comparison between centres is very limited but one thing is fairly clear: several cities have seen wealthy overseas buyers as easy targets for policy measures designed to achieve fiscal (and rarely social) ends. But despite this, there is very little evidence that any particular city has suffered a significant loss of interest from overseas buyers as a direct result of tax measures. There is speculation that France might be approaching this point, but New York and Singapore, for example, have seen no lessening of interest or damage to their global appeal as prime residential destinations.

5.0 Prime residential: the qualitative context

This section sets out the strategic context to the debate about the impact of Prime property in Westminster. We highlight the long-term rising price of property in Westminster; the nature of the public debate, and Westminster's unique role at the heart of a world city. Critically, we also present a resume of stakeholder feedback that we received during the course of our research. Much of this feedback reports on conversations with residents, landowners and independent market observers.

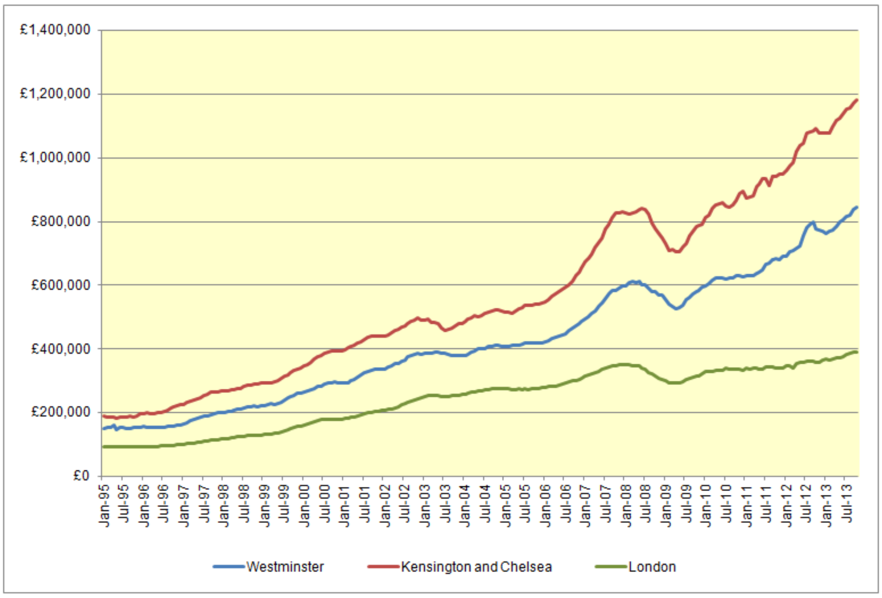
5.1 The rising price of property

The cost of housing in London has long been the subject of public debate, political concern and academic endeavour, not least because of the impact of rising costs on the ability of first time buyers and those on modest incomes to buy homes.

Differential house prices between central London, Greater London, the South East and other regions of the UK have an enormous impact on mobility within and between parts of the UK, with important ramifications for economic activity and social change. Most of this discussion is beyond the scope of this study but it is important to acknowledge that differential house prices are part of a nationwide issue, and not limited to Westminster. Affordability and price-driven exclusion operate in all parts of the UK and in all price brackets.

But the focus of this study is central London, and Westminster in particular. Here, price differentials have been widening for several years (Figure 5.1). In 1995 the Westminster average[32] house price was 160% that of London, while in 2013 this had risen to 220%. In Kensington & Chelsea, the multiples were 200% and 300%.

Figure 5.1 Average house prices, 1995-2013



Source: Land Registry, 2013

[32] Land Registry method: geometric mean at April 2000, adjusted for index change back to 1995 and forward to the present. Figures given here are lower than those given in Figure 4.3 because the Land Registry data excludes a large number of Prime property sales.

There is also some evidence that price rises are gathering pace. Most recent data from the Rightmove House Price Index[33] suggest that house prices in London generally grew by 10.2% in September 2013 alone, a figure that the publication referred to as "*unsustainable*". The September data mean that the average London house price stood at £544,232[34], up by 5.6% (+£28,852) on July's all-time high of £515,379, and pushing the year-on-year increase in London to 13.8% (+£66,161). (This figure fell in November by 5% to £517,276, suggesting Rightmove was correct in its assessment of the September data).

Around this London average, the central London figure now stands at £937,110; while the Rightmove average house price in outer London stands at £461,937 – more than twice the average in the rest of England and Wales, excluding London.

The London average increase was exceeded in a number of central London boroughs, notably: Hammersmith & Fulham (27.0%), Southwark (20.6%), Islington (19.2%), Westminster (11.3%) and Kensington & Chelsea (9.2%). In 2013 alone, Westminster is expected to see over 550 sales of homes in excess of £2 million. This situation helps to explain why our definition of Prime begins at £2 million.

Price inflation has been even starker within higher value price bands. According to Savills [35], during the past eight years, the average value of prime central London residential property rose by 116%, "*or 66% above the rate of RPI inflation*". Savills describe this as an "*unprecedented period of outperformance compared to the UK housing market, which has fallen -19.3% in real terms over the same timescale*".

Despite this recent performance of prime property prices, as this report was being prepared there was some anecdotal evidence that prime price rises could be slowing. For example, Savills suggested that prime price rises over the period 2014-18 could be somewhat slower than the wider London market.[36]

One of the distinguishing features of the current residential market in London is that, while the scale and pace of house price rises has undoubtedly accelerated, the proportion of homes being bought with cash has risen to more than a third for the first time. Savills point out that, in London, in the twelve months to June 2013, "*Only 38% of the sums spent on house purchase were funded by mortgage debt*".[37] As was shown in Section 4.5, cash buying is a feature of "prime" markets globally.

5.1.1 Affordability As we have seen above, Westminster is an expensive place to buy property. Statistics show that of the top 25 locations nationally, it is second only to neighbouring Kensington & Chelsea in terms of average sale price – but only marginally – and both locations are far ahead of the other 23 locations (Figure 5.2). Indeed, third placed neighbouring Camden was a striking £577,000 behind Westminster in terms of average price. This, by itself, sets a very substantial constraint on the room for manoeuvre in policy making in Westminster.

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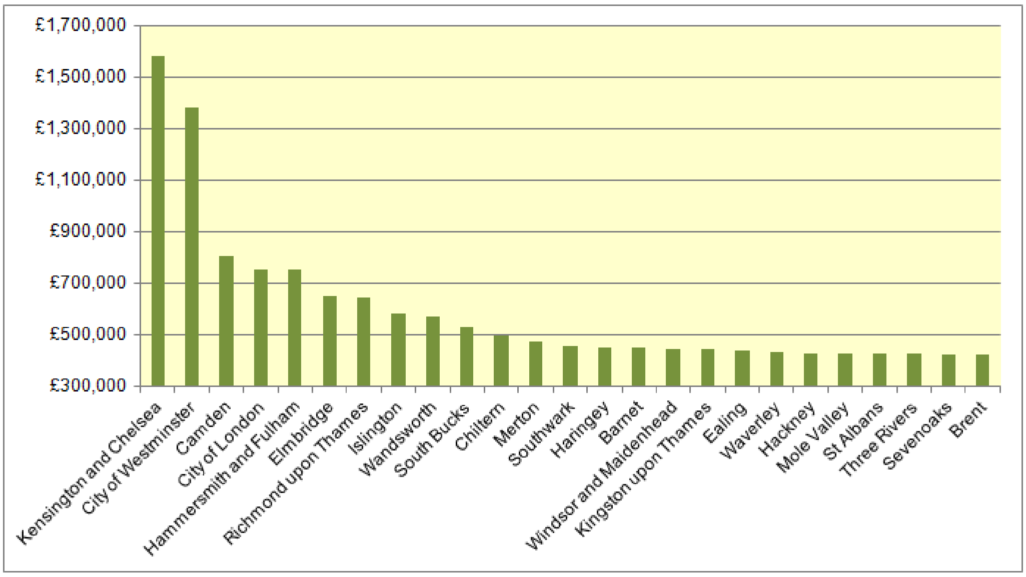
[33] Rightmove (2013) *The Rightmove House Price Index* 21st October 2013
[34] The Rightmove average for 2013 is much greater than the Land Registry average due to the method of calculation.
[35] Savills (2013) *Prime London Residential Market: Where is the Next Stop?* Autumn 2013
[36] Savills (2014) *Residential Property Focus* Q1 2014
[37] Savills (2013) *Residential Property Focus* Q4 2013

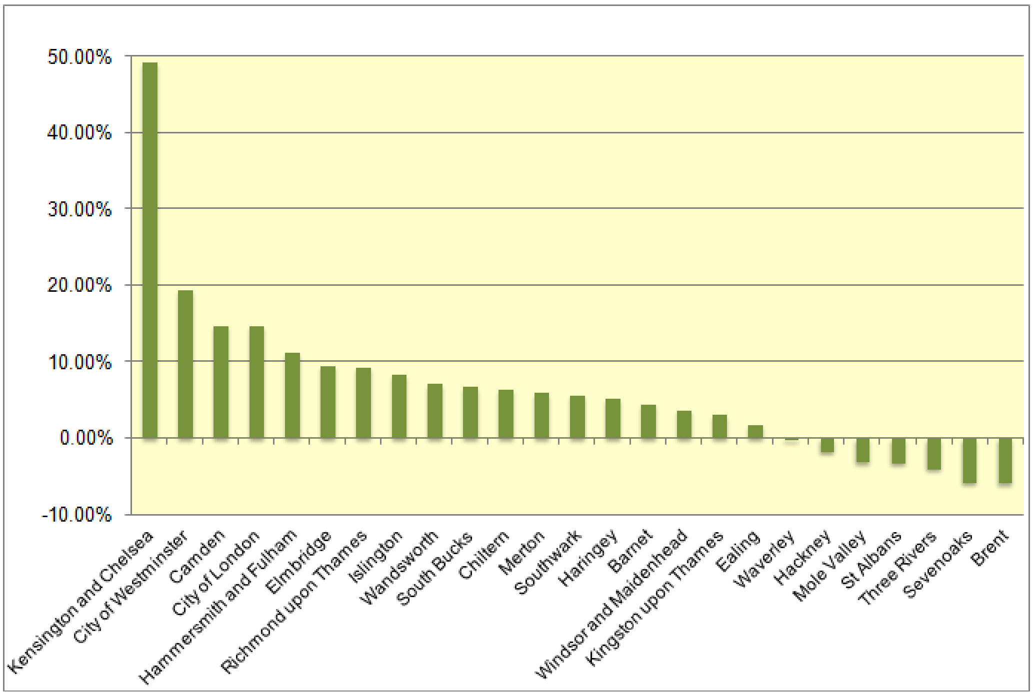
Figure 5.2 UK average sale price, Q2 2013, top 25 locations by price



Source: Land Registry, 2013

As well as the absolute gap, the average price in Westminster is growing more rapidly than in most of its peers. With the exception of Kensington & Chelsea, Westminster is the fastest growing market, followed by Camden City of London and Hammersmith & Fulham (Figure 5.3).

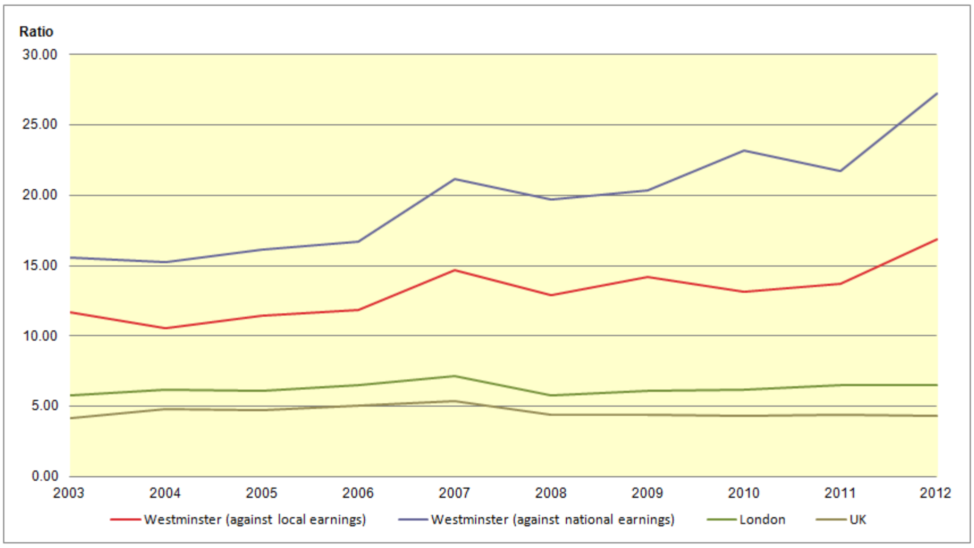
Figure 5.3 UK annual growth to Q2 2013, top 25 locations by price



Source: Land Registry, 2013

Westminster is, on almost any measure, a 'hot' market. It has always been an expensive locale – being expensive is, in itself hardly news. However, trends suggest that Westminster is getting more expensive relative to its peers. Figure 5.4 shows the ratio of house prices to earnings for Westminster[38], London and the UK (using median earnings and house prices in the case of Westminster and Nationwide data for the UK and London), as well as Westminster as a ratio of national earnings.

Figure 5.4 House prices and earnings ratios, 2003-12



Source: Nationwide (2013); Land Registry (2013),and Nomis (2013)

Even allowing for caveats about the quality of the data at the local authority level, the difference is striking – and it is evidence that Westminster is getting less affordable, even to notional cash buyers. While the ratios for the UK and London have remained stable since the credit crunch, house prices in Westminster have become steadily more expensive relative to both local earnings and UK earnings. In fact, prices in Westminster have risen from 16 times average national earnings in 2003 to 27 times in 2012.

5.1.2 Recent price trends: the new normal? Much of the media coverage of London's housing market in recent times has focused, naturally, on rising prices. While this issue is examined elsewhere and partly explained by supply and demand factors, there is the further question of whether recent price changes are sustainable or whether there will follow some sort of correction. This is an important question when considering potential policy responses to recent trends.

Some insight into this question was provided in November 2013 by EC Harris, who published data on new supply of prime property in London. They point to an escalating level of new supply: "*increasing the risk of an over-crowded market*".[39] The report goes on to state that over 20,000 prime residential units could be

[38] ONS warns that local area earnings data should be used with caution for reasons of statistical validity. Although certainly not precise, we believe that the figures are not wildly inaccurate.
[39] EC Harris (2013) *London Prime Residential Development Pipeline: Avoiding the Profit Squeeze*

delivered in London during next decade, across 150 sites.[40] This is clearly a much broader market than the >£2 million price band, and perhaps reinforces the point made elsewhere in this report the price escalation is being driven by home sales in the £1-£2 million price band.

According to the report, as shown in Figure 5.5, the greatest increase in supply has been in the lower end of the prime value range (£1,250 per sq ft to £1,650 per sq ft), and in the peripheral markets, including the South Bank, Bayswater & Paddington, Chelsea & Fulham and the City fringe. By comparison supply of properties of >£2,200 per sq ft is relatively static.

Figure 5.5 London prime new supply, 2012 and 2013

Sales price band	Units 2012	Units 2013	Variance
£1,250-£1,650 per sq ft	8,398	13,022	+4,624 (+55%)
£1,650-£2,200 per sq ft	3,825	3,496	-329 (-9%)
Over £2,200 per sq ft	3,223	3,640	+417 (+13%)
Total number of units	15,446	20,158	+4,712 (+31%)

Source: EC Harris (2013)

The report suggests that the reduction of units in the £1,650 per sq ft to £2,200 per sq ft band is probably mostly explained by "*many schemes increasing in value by more than the inflation rate we have applied to the previous year's figures. They are now contributing to the uplift in numbers in the >£2,200/ft² sales value bracket*".

The report forecasts development peaking in 2017, with question marks over the pace at which some landowners will progress forward "*due to problems with planning, funding, finding appropriate development expertise or implementing a desire to trade a site rather than develop it out*". In the run up to this peak, the "*real risk*" for developers is of an "*increasingly crowded market*".

Evidence of the crowded market is seen in the growing level of activity by mainstream commercial property REITs. According to data from Green Street Advisors, UK REITs are currently managing a £3 billion pipeline of residential development, comprising over 25% of their development activity over the next five years.[41] The report highlights the role of Land Securities, which will

> *launch a new residential division in December as it increases levels of housing development. Forty per cent of the group's development pipeline – including plans for 561 new homes in the Victoria area of central London – is residential, a percentage mirrored at rival British Land ...*

Hamptons also predict a slowing down of price escalation in London prime residential property, anticipating "*that the rate of house price growth in the prime central London (PCL) market will now decline*".[42] The firm anticipates an "*improvement in the global economy and particularly greater confidence in Europe*" leading to "*fewer safe haven flows*". But as well as safe haven issues, the research

[40] Note: EC Harris define prime property as that which has a sales value in excess of £1,250 per sq ft
[41] Allen K (2013) UK REITs make £3bn bet on London house prices *Financial Times* 20th November
[42] Hamptons International (2013) *Housing Market Forecasts* Autumn 2013

also suggests that investors will become more conservative in their expectations for capital growth, relative to other asset classes. The report argues that

> *As the recovery in US and Europe gathers pace, investors will consider other types of investment asset as their yields improve. There are already signs of some resistance on pricing in PCL markets and we expect that demand will now begin to soften.*

Strutt & Parker reflect a widely held view among the agents that price pressure will ease over the next few years, as a result of a continuing weak global economy, thereby preventing any "*rapid acceleration in prices similar to the performance seen in 2011 and 2012*". Noting that prime central London property prices have "*surged by over 13% year-on-year over the past 3 years*", Strutt and Parker suggest that "global uncertainties and risks to the UK's own economic outlook" will mean that "a return to double-digit growth ... looks unlikely". Evidence that we have gathered more widely generally concurs with this assessment.

To summarise this section, house price rises in London have accelerated since 2010, reaching double figures over the past year. Prices in Westminster have grown more steeply (from 160% of London average in 1995 to 220% in 2013). Westminster has become less affordable by a large margin over the rest of London, with average prices in the borough rising from 16 times earnings in 2003 to 27 times earnings in 2012. Developers have responded to demand pressure, and the pipeline has burgeoned. The bulk of new development is targeting the prime market below £2 million, and is in the peripheral areas of prime London, not in Westminster.

5.2 Prime property: the public debate

In addition to the evidence of rapidly rising house values in London, there is the added element that spiralling values are said to be being driven by wealthy overseas buyers. The debate has become more public and more intense in recent years as construction activity has focused on high value property, as values have spiralled and as the visible presence of overseas money has become more obvious. There is a sense, in the media at least, that London is becoming a place for the world's wealthy, rather than Londoners.

What is sometimes characterised as the "*lights out London*" debate suggests that growing amounts of real estate in London are owned by overseas buyers who spend very little time in London. For them, so the argument goes, London property is a convenient and safe place in which to deposit cash. One prominent London MP has even called for a virtual ban on overseas buyers. While this might sound extreme, there are precedents in other countries. This is indicative of an increasingly populist view that "*something needs to be done*". And, indeed, steps have been taken.

In the 2012 budget, the Government raised stamp duty on homes of >£2 million to 7%, and imposed a 15% stamp duty on transactions where the purchaser is a company. The threat of a "Mansion Tax" has been widely discussed to address one end of the spectrum, while the Government's "Help to Buy" scheme was introduced to address the other. And in the 2013 Autumn Statement, the Chancellor brought overseas sellers into line with domestic by making them liable to Capital Gains Tax.

The public nature of the debate about house prices in London, and the role of prime property in particular, have led to a somewhat polarised discussion.

Because of its position at the heart of London, Westminster does not have reserves of brown field land that it can draw upon to meet growing demand for all types of housing. At the same time, its physical position means that it could probably never fully satisfy demand – no matter what the level of supply. Therefore, it must manage and allocate housing resources extremely carefully. Also, because of these factors, the growth of central London's prime residential market has placed a spotlight on the provision of other types of housing within the borough.

The debate about the impact of property is often presented in the media as a binary debate: good thing or bad thing? Often the arguments are based on hearsay and personal experience rather than on any robust factual foundation. But even when a debate informed by facts takes place, there remain strong divisions about the impact of the prime market.

In the context of the remainder of this report it is important to understand the different viewpoints. The following two passages illustrate the polarised debate.

5.2.1 The argument against A recent report published by The Smith Institute makes a number of observations.[43] For example, it concludes that "*London's housing market has become distorted and dysfunctional*", as a result of "*the huge rise in overseas investment in expensive properties for the super-rich*". The report claims that purchases of "*luxury homes has doubled to over £5bn a year – five times more than the annual investment in Affordable homes in London*". The report then goes on to present a number of stark claims, from which the following are extracted.

- Over 60% of new homes in central London are currently bought by overseas investors, with reports suggesting that a high proportion is kept empty.
- The growth in overseas purchases in London property (mainly from the Far East) is set to continue, despite the higher stamp duty rate. There is a real risk that investment on this scale could create a "housing bubble".
- As overseas buyers seek out homes for investment purposes they risk pushing prices up, reducing the availability of homes to buy for local people.
- London house prices remain far higher than those of the rest of the country, and look set to widen further, partly due to the surge in demand for 'high-'end' properties in "desirable" boroughs such as Kensington and Chelsea.
- A new approach is needed which seeks to direct such investment into positive areas such as new Affordable Housing rather than capitalising on the asset values of new and second-hand luxury properties.

These points appear, in isolation, to make good sense (although as we have seen they do not relate solely to Prime residential property in our sense of the term). But then there is the opposing position.

5.2.2 The argument for In contrast to the foregoing, Savills[44] drew attention to London as "*the fastest growing city in Europe …. an extremely cosmopolitan city [where] a large proportion of people buying homes … are international*". The report

[43] Heywood A (2012) *London for sale? An assessment of the private housing market in London and the impact of growing overseas investment* The Smith Institute
[44] Savills (2013) *The World in London*

noted that overseas buyers in prime markets have “*increased in the last decade or so but not above levels seen previously, in the 1980s and 90s for example*”.

The report suggested that “*what we are seeing currently is nothing new*”, and that the increased demand from overseas buyers “*is partly because the absolute numbers of UK buyers declined in the wake of economic recession, falling real incomes and scarcer finance, making overseas purchasers a higher proportion of the whole market*”. It also links the growth to London’s status as a global city, as “*increasing numbers of overseas buyers are coming to live, work, study and set up businesses in the capital*”.

- The proportion of overseas buyers is closely linked to the growing numbers of London residents born overseas generally. It is simply reflective of the growth seen across the board. 35% of all Londoners, not just those buying prime property, were born overseas. House purchase by international buyers has more to do with residency than anything else.
- Every buyer in prime London could be described as ‘international’. London is a premier global city and quite possibly the most cosmopolitan of all world cities. This means that even UK-born housing market participants are operating in a global market.
- London remains a very attractive location in which to invest, participate, learn, live and visit. The majority of home buyers live and work in London or have business interests in the UK. It is hardly surprising that they have been beating a path to its prime housing markets since the 1970s. As long ago as 1990, 38% of prime London buyers were from overseas. This is the same figure as seen in 2012-13.

The contrast between these two passages is quite stark. There are clearly divergent views on the impact and desirability of the prime property market in central London from respected and well-informed organisations. We continue this section by placing the debate into the context of London’s role as a world city.

5.2.3 London world city London is a world city. It is one of a handful of centres of world finance and business services, acting as a magnet for capital and business from around the globe. It is necessary to contextualise the debate about the impact of Prime property in Westminster with reference to its role at the heart of a world city. While the following passages are widely understood, we believe their inclusion here is important.

Two of the most comprehensive indices measuring the comparative performance of cities around the world illustrate London’s global position. Management consultant AT Kearney prepares a Global Cities Index[45] that ranks 65 cities according to 25 measures across “*five dimensions of globalisation*”, namely: Business Activity, Human Capital, Information Exchange, Cultural Experience and Political Engagement. The 2010 Index ranks London second overall, behind New York.

Research group Zyen produces a Global Financial Centres Index, based on 96 factors, grouped into “*five key areas of competitiveness”*, namely: People, Business Environment, Market Access, Infrastructure and General Competitiveness. It has argued that London and New York “*remain the only truly global financial centres*”.

[45] A T Kearney (2010) *The Urban Elite: The AT Kearney Global Cities Index 2010*

The 2013 edition ranks London first overall, together with top place in all five areas of competitiveness.[46]

London hosts the largest money market in the world; its interbank market is the largest in the world, and its foreign exchange market is also the largest in the world. There were 251 branches and subsidiaries of foreign banks in the UK (mostly in the City) in March 2011, more than in any other country worldwide; and around half of European investment banking activity is conducted here. London is the world's largest international insurance market; the main centre for world reinsurance, and the global leader in marine insurance.[47]

Many measures of London's global role focus on financial services, but London is much more than that. It is an economic agglomeration of enormous depth. Business services, creative and media services, life sciences, medicine and technology are all part of the city's extraordinarily rich tapestry of economic strengths. For example, London hosts a global creative industries cluster of designers, advertisers, film production specialists, games programmers and animators, artists, musicians and writers. As a result, London's creative industry is the city's second largest sector, worth $32 billion annually; generating 16% of the city's annual gross value added and employing some 400,000 people.[48]

And of course London is much more than a place of commerce. Its cultural backdrop, including the entertainment industry, its heritage, and its open and cosmopolitan outlook make London an international magnet. London's population has risen by one million since 1990, and is forecast to grow by another two million over the next two decades, reaching ten million people. It is a highly cosmopolitan city, home to over 200 nationalities, speaking over 300 languages; and 40% of its workforce was born overseas.

Given these factors it is little wonder that the capital's residential market also operates with a major international dimension: its supply and demand dynamics are driven by a set of factors which are very different to other parts of the country. It is, in a very real sense, a global market, influenced by factors well beyond the confines of the capital itself. And this pattern is accentuated in the centre of the city.

Thus high net worth individuals from around the globe target central London as a "safe haven" for investment, for its political and economic stability, and for its cultural diversity. Recent growth in international activity in London has been fuelled, in part, by political and economic uncertainty in the global economy, as well as rapid growth in emerging economies in Asia, Russia and South America.

A very interesting recent paper from the Said Business School in Oxford[49] has underlined the role of London's residential market as a safe haven by suggesting a direct correlation between London house prices and political and economic uncertainty overseas. For example, the authors claim that their data demonstrate "*that political risk in Southern EU (Italy, Greece, Spain, Portugal) and China are strongly associated with future price appreciation in London wards with high shares*

[46] Zyen (2013) *The Global Financial Centres Index 13* Qatar Financial Centre
[47] The City UK (2013) *Key Facts About UK Financial and Professional Services*
[48] London & Partners (2011) *London Creative Industries*
[49] Badarinza C & Ramadorai T (2013) *Home Away From Home? Safe Haven Effects and London House Prices* Said Business School, Oxford, November 19th 2013

of people born in these regions". Further, that "*there are strong positive effects on house prices in wards with high shares of people originating from a particular country, following periods of elevated political risk in those countries*". The paper provides convincing evidence of London's perceived safety and security, a key factor underpinning demand and, therefore, price escalation.

As well as international investors, demand for prime property in London over recent years has been fuelled by a home-grown wealth, generated in the financial and business services sector, and elsewhere. But even this home-grown demand is driven by business activity primarily operating in international markets.

While London plays a global role, within this Westminster fulfils a unique role. This is illustrated in a recent report by the West End Commission.[50] Referring to the West End, the Commission argues that it is *"a unique place locally, nationally and internationally".* It is:

> *the seat of the UK Government; the home of the Royal Family; a leading European retail and visitor destination (with over 2,500 restaurants and bars, and 2,000 shops); a vibrant entertainment and cultural centre (including 40 renowned theatres, 30 museums and galleries and 18 casinos); ... a network of distinctive residential communities ... and a home to leading creative and digital industries ...*
>
> *In only a few square miles, the West End provides a shop window to the rest of the country and to the world, showcasing the very best that London and the United Kingdom have to offer whilst highlighting the extraordinary diversity and character of our nation's capital city. These activities generate substantial revenues for the UK Government through business rates, VAT and employment/income taxes.*

While not being entirely objective, these excerpts highlight features that make Westminster such a strong magnet, both to UK high net worth individuals and to those from abroad. Westminster is important not only in its own right, but in a London-wide context and in a global context. The practical implication is that land values are driven by forces external to the borough; and price rises lead to displacement of lower value land uses, such as industry or community activities. There are no green field and very few vacant brown field sites in Westminster, and the most intense competition for space tends to occur in locations of most intense and diverse activity, i.e., the Central Activities Zone.

5.3 Stakeholder feedback

Some questions in the brief simply do not lend themselves to quantitative analysis; in other cases the data has not been recorded, or published. To gain insight, we consulted with a range of stakeholders in Westminster housing markets through interviews, workshops and written responses. The focus of our consultations was on the following questions.

- To what degree are Prime residential units left vacant?
- What is the impact of vacancy on the local economy and community?

[50] West End Commission (2013) *Final Report* April 2013

- What potential planning or other policy mechanisms could be adopted to better manage the implications for wider social and economic benefits?

The groups with which we consulted included the following.

- Residents, via residents' associations and amenity societies
- Local businesses and trade associations
- Landowners and developers
- Concierges and managing agents
- Consultants and estates agents
- Academics

In undertaking the stakeholder consultations we collaborated with anthropologist Dr Luna Glucksberg from Goldsmith's College, who is part of a research team studying the lifestyles of the global super-wealthy. The project will take place over a two year period and is funded by the Economic and Social Research Council. Dr Glucksberg made some observations on the process and outcomes of our consultation process, including the following passage.

> *While it is obviously a truism to say that things are often more complicated than they first appear, this report shows just how complex things are in this borough. To even imagine that this could be summarised in a simple, unilinear narrative to generate straightforward answers would be naïve. In fact even the problems highlighted in this report are only ever problems for some of the actors involved, and the ways of framing and approaching them can only ever relate to whose perspective is taken into account.*
>
> *What is clear from this report is that the issues that affect the City of Westminster and its housing situation relate to much wider geographical, political and economic domains than the borough itself. They are deeply connected to London as a whole, both in its role of capital of the UK but also as a dominant player in global financial markets. As a result, it is highly unlikely that these matters could be solved at a local level. While it is true that measures could be taken to somehow ameliorate the effects of, for example, real estate in prime and super-prime locations being used as a safe haven for foreign capital fleeing economic and political instability abroad, it is obvious that these are global matters that need to be addressed at a much wider, international level.*

5.3.1 To what degree are Prime residential units left vacant? Concerns about prime London homes being left vacant have, as already described, fuelled much media debate, not all of it well-informed. We wanted to know whether the people who live and work in London recognise this 'lights out' portrait of their city.

Our consultations revealed little tangible evidence of homes being left vacant all year round but a strong sense that Westminster, in common with other high-value areas of London, has a growing number of homes used for only short periods. As evidence, we were directed to the decline in the voting populations of some wards – specifically in Belgravia – although this might be explained by a decline in the population eligible or choosing to register or to actually vote, rather than an absolute loss of residents. In fact, Savills' data (Figure 4.20) suggest that most homes in Belgravia were sold as main residences.

Belgravia, was the area most often cited as suffering from high levels of vacancy, however, the only specific address cited during discussions as an example of 'lights out' was One Hyde Park.

We did however pick up a general sense that there was a higher than average incidence of properties being left vacant in Regent's Park; Belgravia and St John's Wood. These are all areas where very large houses are common and it does seem to be the case that a small number of very large houses are being bought and used only intermittently and that they frequently undergo long and elaborate refurbishment programmes, possibly with basement extensions, which means they may not be habitable for as long as three years.

We understand from businesses involved with managing households that, once that building work has been completed, members of household staff are usually in residence all year, even when the owners are not.

A feature of the prime London residential market that seems to be far more significant than vacancy, is partial occupancy. In other words, homes that are used for parts of the week, or parts of the year and we tried to gather empirical evidence for the degree to which properties were under-occupied, (see 'occupancy rates' below).

There is an important distinction between second homes used regularly, perhaps from Monday to Thursday, as pied-a-terres and those used for just a few weeks of the year. We found that the use of a pied a terre type of residency was generally accepted by the residents in our survey.

> *This neighbourhood is ideal for a 'pied a terre' flat as it is well connected to rail stations. This saves commuting and consequent congestion/ carbon emissions, so not necessarily a bad thing*.

However, the rising incidence of properties perceived to be owned purely as investments provoked strong objections amongst residents: "*many houses and flats are only occupied infrequently and may well be held for investment purposes*".

> *It is deepening the divide between haves and have-nots. Some sections of society are going for accumulation of residential property. Others resent it – so I think [there is] potential for schism*.

Some, but by no means all, respondents characterised these investors as overseas investors: "*Properties are being bought up by foreign investors who have no intention of living full time in the area and are buying for investment purposes only*." This is supported by anecdotal evidence from local estate agents.

Occupancy is the hardest to quantify of all the issues raised by this study. Even if a property is identified as a second home, that gives no indication of how often it is used and a second home might be occupied for the majority of the working week as well as some weekends by at least one member of a household.

Occupancy rates We were, from our consultations, able to get some hard evidence of occupancy rates in parts of Westminster. For the purpose of this discussion occupancy rate refers to a proportion of the year, rather than a proportion of the property. That might mean being in residence for part of every week, or for a number of weeks or months in a year.

Another aspect of occupancy that was raised as a concern was the length of a tenancy contract. For now however, we turn to residents who are most often owner-occupiers but are only in occupation for a proportion of a year.

There is one key driver that sets a standard pattern for parts of the population: the 90-day rule for non-domiciles, above which they become liable for UK tax. Many homeowners' occupancy patterns are dictated by this, so many overseas owners are present, on average, for roughly 25% of the year.

Some residents felt able to estimate the proportion of properties around them that are occupied: "*Most Central London apartment blocks give the impression of 40% occupancy*." We were also given a number of specific examples.

Several sources asserted that average occupancy in One Hyde Park is 25%. This is almost certainly made up of 100% part time residents being present for parts of the year, which between them equates to 25% of the year.

> *In one [Marylebone mansion block] more than half [are] owned by foreign investors or families from the Middle East, who are only here in the summer*.

Residents from several blocks in Marylebone note a high proportion of Middle Eastern owners and of flats used as holiday homes for short periods of the year – particularly at Ramadan. Middle Eastern investors have been an established feature of the London residential market since the 1970s (as is evident from census data). Russian and South American buyers are relatively new to the London residential market.

The demography of St John's Wood is heavily influenced by the American School. There is a large community of American residents many of whom are absent during the summer months or at Christmas. This creates distinctive trading patterns on the high street and occupancy rates in homes, even for family homes, of around 60%.

Moreover, partial occupancy has long been a feature of the London residential market, as one landowner pointed out: "*Chelsea has always had a tradition of people having second homes and not being here all the time, so it's not an overseas characteristic*".

5.3.2 Case study: Mayfair listed residential block While the stakeholder feedback comprised the opinions and observations of a group of people who were willing to engage with this research project rather than a structured sample, they add considerable depth and colour to the statistical analysis of buyer types and intentions described in Section 4.4 and paint a consistent picture.

It would be fruitful to undertake a more rigorous analysis of occupiers in a series of specified locations. Using the mansion block as a research unit would probably be the most effective way because they often have their own residents' association which is well-placed to request information from fellow occupiers. In this way it would be possible to collect data on such things as length of ownership or tenancy, frequency or duration of periods of absence and the rate and type of change in the socio cultural-profile of owners and residents in the block.

We would suggest selecting a set of mansion blocks to be surveyed on a regular basis to monitor change and highlight trends. Our experience of consulting with residents' associations on this project suggests that there would be a considerable degree of cooperation and that it would be possible to compile data with their assistance using records of membership combined with interviews and surveys. We undertook one such exercise on a Mayfair mansion block, which is described below.

The case study building is in the heart of Mayfair. The private apartments are manned by a concierge who knows the owners by name and is familiar with their lifestyles. He has worked in this building for more than a decade.

The concierge confirmed that the majority of residents are not in occupation for most of the year but when in residence they use local amenities and employ local services. He sees 2007 as a turning point in the character of occupation in the block, reporting that: "*In 2000, these flats were lived in by their owners. Since 2007, most of those owners have sold. Now there are more rentals.*"

Figure 5.6 shows that only three of the flats are owned by UK nationals and all of these are rented out. Only three flats are used as a main home and these are either rentals or, in the case of one, used by the son of the owner – who presumably is also a temporary resident. In this block, the average occupancy is 44% of the year – consistent with the estimate made elsewhere for mansion blocks (of 40%).

Figure 5.6 Occupation profile of Mayfair case study residential block

Nationality	Occupation	Comments
Iranian	<10%	Has homes overseas (Japan/New York)
Irish	50%	Pied-a-terre
Spanish	100%	Lived in by adult son.
French	25%	Let to US finance worker, used few days per month
Saudi Arabian	<10%	Has home in Nice
Indian	<10%	Lives Singapore. Family make very occasional use
UK	100%	Let to Egyptian
UK	30%	Let to UK resident for pied-a-terre
UK	100%	Let to UK/Far Eastern young couple
Iranian	<10%	Has homes elsewhere

Unit size and occupancy The relationship between unit size and the likelihood of a property being left vacant is complex and it would be unwise to imply any link from the evidence of our consultations, since we found conflicting views.

For some, a direct link between size and vacancy is convincing, as observed by one landowner: "*The bigger the house the less likely it is to be occupied full time. People who are that wealthy live different lifestyles*." But in the experience of an agent: "*Houses are more likely to be a permanent residence. The owners are here as a family, educating their children.*"

There were also conflicting views on the consequences of increasing unit size.

> *Some houses that were once flats or bedsits have been returned to single residences or have been combined to be maisonettes. Larger properties mean that families can stay in the area, and then we have a better mix of age ranges in the neighbourhood*.

Many overseas buyers are not comfortable living in homes where accommodation is arranged vertically, so there is a market for lateral flats – several large houses converted and combined to create large floor area apartments on a single level. This also meets requirements for security and minimises the responsibility for maintenance. This style of property often suits families that do not want staff living in the property during their absence.

Some consultees warned of the unintended consequences of planning policies designed to limit density or provide family housing. Planning requirements for low density have in some instances encouraged developers to create larger units because density is measured by unit or bedroom count, rather than area. One agent described a class of 'accidental prime developers' who, to maximise value while complying with density restrictions, create very large units, building Prime property where they might otherwise have built for a more modest buyer.

Basements Another way to increase unit size is to create a single or double storey basement. This is viewed negatively by many residents, as a way to enhance investment value without incurring stamp duty, rather than create living space: "*Basements are a safe place to dump money and it's tax free*." The consequences of basement extensions have been widely debated and a private members' bill has been introduced to parliament. There is also a consultation underway at Westminster City Council.

The construction process is long – between one and three years and, in that time, no one can occupy the property. When several basement extensions are in progress near each other, the impact on quality of life for neighbours can be great. "*They can't live there in the meantime, so it creates chaos and vacancy*."

5.3.3 What is the impact of vacancy on the community? We asked residents to describe how their community had changed in recent years in ways that could be attributed to partial occupancy or vacancy. In Westminster the population is both socially and culturally diverse; and spiralling values in markets are central to the debate about the location of public sector rental, Affordable and private housing.

Residents attached importance to preserving diversity, stability and familiarity. Not all were aware of change: "*The community is quite stable. Many neighbours like me have lived here for over 25 years, some for 50 years*". Indeed we found a few residents for whom the transition from predominantly rented property to owner occupied property is relatively recent and seen as a positive outcome of the change in neighbourhoods, brought about by Right-to-Buy. More home owners, meaning less rented properties, has meant less transience, increasing stability and: "*more neighbours who know each other*".

However, far more common, were concerns about the rise of partial occupancy and of the growth in private rental and the impact of these on the success of a community: *"This means that the residents' associations are weak, and that there is unused accommodation that might usefully house key workers – people who contribute to the local economy and local life".*

Tenure and buy-to-let Residents acknowledged that if property is being rented out, then it is contributing to housing need. However they expressed concerns over changes to the balance of tenure types – the shift towards more private rental – and a sense that a disproportionate number of rented properties leads to a transient community that, in turn, undermines cohesion and can be disruptive.

One case study described to us was a mews where 52% of the properties are rented and, two-thirds of the tenants are transient occupiers. The balance has changed in fifteen years from a clear majority of owner occupied homes to a small majority now being rented to: "*transient residents such as business school students or overseas workers on short term contracts*."

Parts of Westminster have seen a rise in the student population. While they were not criticised for their lifestyles, the fact that they are temporary residents led to observations that they invest less in the community: "*Most of the students behave well and do not make noise or mess, but they are mostly gone in a year, and are not interested in the mews or the long-term residents"*.

And in some instances, it is seen as leaving a void into which crime can seep: "*Use as pied-a-terre and rentals to students mean that the street can be extremely empty during weekends and holidays, which is not a good thing, especially in the winter when we tend to experience more burglaries*".

A landowner observed that the range of options for occupying high value residential properties has been diminished since the Leasehold Reform Act. Before then, it was possible to own the short unexpired residue of a long lease at a heavily discounted price, meaning less affluent people could own and live in high value properties. Such owners feel more of the responsibility and connection of an owner.

Tenure is one mechanism that can be employed to address diversity, since it creates more entry points to the market. One example cited was the Dolphin Square Foundation (DSF) established in 2005 with an endowment of £80 million from the Dolphin Square Trust – with proceeds from the sale of Dolphin Square – with an aim to provide rental homes at sub-market prices for people who need to live close to work and who either live or work in the borough. We understand that rents for their properties are between 65% and 80% of full market rent.

The DSF tenant strategy is based on a belief that it is important to provide places for a working population to live to support London's diverse employment base. It recognises that failing to provide a place to live for people in less well paid sectors, early career stages, or junior positions, could have a negative impact on London's economy in the medium to long term. There is an underlying concern that

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Westminster could end up with a highly polarised demography. The DSF model recognises the benefits of ensuring the continued presence of middle-income earners in Westminster.

It was suggested to us that planning policy should not only distinguish between social and intermediate housing in securing planning gain or attaching conditions, but also between rental and purchase. There is a view that impact should be measured as social capital – the contribution that a particular social group makes to the community.

Lifestyle/age diversity Residents were strongly supportive of diversity in their communities. For some, it was defined in terms of wealth: "*we like living in areas where rich and poorer mingle … It is the cutting off of the normal meeting places between rich and poor, foreign and local that is the problem*." Such views were entirely endorsed by landowners, even on purely commercial grounds: "*If the portfolio becomes exclusively wealthy, it is not resilient*."

Other residents described diversity in terms of lifestyle and age groups: "*during the last few years, there were 6 [children in the mews], which was very enjoyable as they played in the street … and people got to know each other".*

In fact, the groups that were often seen as the cause of lost cohesion were young, educated people who were part of the transient, buy to let community, or who, despite being owner-occupiers, chose to mix in separate social networks. These were frequently characterised as the 'bankers'. "*Since late 1990s, the kind of person living here has changed from older people of comfortable or modest means, to (often young) affluent professionals, both rentals and owner-occupied*." And that "*They educate their children in private schools outside the borough and do not become part of the established community*".

Some residents made distinctions between early gentrifiers, (who may have displaced previously established residents when they moved into the area in the 1980s and 1990s) and the more recent incomers. There is a sense that the early gentrifiers sought to integrate into the community and, importantly, that the gap in relative income levels was much narrower, with smoother assimilation because they were likely to shop in the same places and use the same schools.

Here we must acknowledge that there might be some romanticising of the early process. There are compelling arguments that they made positive contributions to their adopted areas by, for instance, refurbishing housing stock; reviving community facilities; becoming involved in local schools and extending the diversity of the population. But those early gentrifiers would have disturbed the communities that they moved into, put pressures on housing supply and help make houses less affordable for established residents. As long ago as 1964, Ruth Glass wrote:

> *Any district in or near London, however, dingy, or unfashionable, is likely to become expensive, and London may quite soon be a city which illustrates the principle of the survival of the fittest: the financially fittest, who can still afford to work and live there*.[51]

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[51] Glass R (1964) *Introduction to London: aspects of change* Centre for Urban Studies, London

Escalation of house prices It is undoubtedly the case that Prime values have expanded and encroached into new parts of London; and evidence is presented elsewhere in this report to support this assertion. Parts of London have always been beyond the means of 'ordinary Londoners' but perhaps that was acceptable or workable as long as there were neighbouring places that were more affordable.

Residents spoke of the impact of price rises in two ways. First, they referred to members of their families having been priced out of their own localities. This also has implications for policy intervention. Residents of high value properties expected that the imposition of a mansion tax would prompt significant decanting of established residents who would be unable to fund the substantial additional annual cost. *"We will go. There will be unforeseen consequences. Prices will collapse and communities will change. Remnants of traditional residents will go".*

Secondly that it has encouraged high levels of churn as some residents choose to take profit, and new buyers arrive whose motives are speculative investment, rather than buying a home to live in.

> *I think the squeezing is largely taking place as a result of rising prices which have made individual occupiers think carefully as to whether they wish to remain or seek a one off capital gain or to sublet.*
>
> *I needed to bring my parents closer to London so that I was able to better care for them. I hoped to find a two bedroom flat near to where I live … I was distressed to discover [our budget could only buy] poor quality, undesirable, very small … in mixed blocks with high service charges.*

Our interviews with agents, landowners and residents all supported the view that the geographic definition of Prime markets is spreading and that this is creating pressure on prices, and availability.

One agent referred to the '*re-gentrification of areas on the fringe of super prime, such as Marylebone, Fitzrovia, Bloomsbury and the Hyde Park Estate*'. Speaking specifically about the area to the north of Hyde Park, one agent described a 'missing link' in the loop around the park, with Mayfair, Belgravia, Knightsbridge and Kensington forming a continuous band of high values wrapping around Hyde Park to the east, south and west and only now bridging the gap to the north where Cubitt style architecture ("*very Belgravia*") and proximity to the park, make properties that have been used as bedsits and small hotels, attractive to Prime buyers (see Figures 6.8 and 6.9).

The same process is evident to the south of Belgravia ("*Belgravia Creep*") where, again, small hotels and houses in multiple occupation are being brought back into the fold of Prime residential. This has been described as 'the ripple effect'.

5.3.4 What is the impact of the Prime market on the local economy? We identified two perspectives from which the Prime residential market is seen to affect the local economy: first it helps to support an economy of luxury goods and services that rely on high margins on low volume sales and, conversely, it can undermine the customer base of convenience shops and services that rely on high volumes of low margin goods and services. We found evidence of both.

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National debate about the strength and resilience of local retail facilities has been characterised as the 'Portas agenda'. It is difficult to separate the impact on communities in Westminster from wider cultural and economic changes and the expansion of online retailing.

Across the UK, convenience stores have suffered from competition with supermarkets and online deliveries in locations quite unaffected by Prime residential markets. This is not to dismiss it as a critical issue for the sustainability of communities, but it has little to do with escalating residential prices for Prime property except in the most marginal areas.

> *There was a very good art shop in Baker Street for many years, but this closed down about five years ago and has not been replaced. This may be because so many students at University of Westminster now use computers for their graphic work, rather than rental pressure*.

There is also the added complication that London is experiencing a repopulation of its central area at the same time as established residents have a sense that more homes are being left vacant for longer periods. It is certainly the case that, where office space is lost to residential, there is a loss of spend in convenience retail because offices accommodate far higher densities of people than homes and office workers are present during the day and shop for lunch, coffee, small gifts and so on.

5.3.5 Contribution of Prime to retail Our interviews provided evidence of the spending patterns of high net worth individuals (see Section 6.0). Staff employed in Prime households not only have jobs but they, in turn, live and spend in the local economy: "*The staff are well paid and, if they live-in, which most do, all their living expenses are covered and they are resident in the local area."*

Statistics provided by the New West End Company supported the contention that residents in prime districts boost trade for local luxury retailers. Surveys undertaken on behalf of retailers in Bond Street showed that the average spend by a local *resident* is more than twice that of a non-resident Bond Street customer.[52] Our calculations of household expenditure discussed later also support this view. It proved easier to find evidence of an interdependence between Prime residential and retail uses, rather than a measureable contribution from Prime residential to retail.

We found clear signals that providing a mix of commercial and residential uses adds value, and that commercial should be designed to appeal to residents. But whether that means Michelin starred restaurants, cheap and cheerful diners, designer shops, or independent vintage clothes retailers, an upmarket butcher, a corner shop or Waitrose, is the subject of debate.

Some residents were happy that local shops have been sustained: "*Local shops are well provided within 5 minutes walk. There are no empty units and one can buy a wide range of products locally. We are very fortunate*." Another commented: "*Marylebone Station has reinvented itself and is a great community hub. This is a great community asset*." As one landowner put it: "*We make a mistake if we plan for residential alone*".

[52] Based on survey work undertaken on behalf of the New West End Company

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Businesses and landowners were as ready to support the preservation of local retailers as were the residents. They acknowledged the importance of variety in retail and the value attached to residential property close to a lively and attractive retail area. Moreover, places to stop and rest such as cafes, pubs and restaurants are valued by luxury retailers as well as residents.

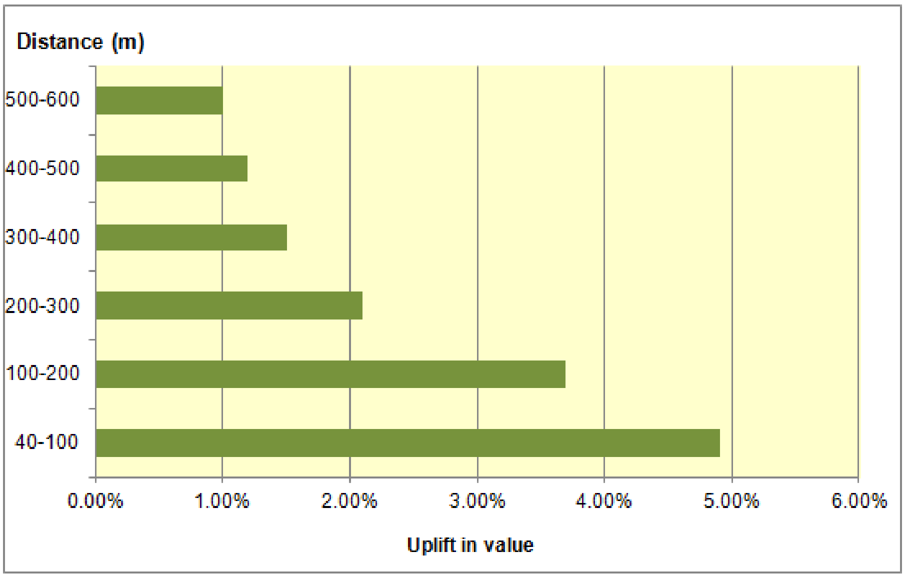
Mount Street was frequently held up as a model of a well-managed retail street. For some this was measured in property prices "*Sales are now £5,000 per sq ft, up from £4,250 per sq ft a rise which can be attributed to the quality of the public realm*." Others referred to community events, such as street parties and support for the local and long established butcher's shop.

Grosvenor had undertaken some analysis of residential values around Elizabeth Street in Belgravia which provides empirical support for the value contribution of an attractive retail environment (Figure 5.7). It identified a price per sq m premium of almost 5% for a residential property located within 100 metres of Elizabeth Street, falling to 2% at 300 metres distance.

We found anecdotal evidence of convenience stores in some parts of Westminster being replaced by shops retailing luxury brands less suited to the needs of the local community. Sometimes members of the same communities had a different perspective on the changes. For instance, the resident above praised Marylebone Station as a community hub. Another saw it like this:

> *Many coffee shops have arrived – five or six of the big chains in the last five years or so. The independent florist in Marylebone Station has been taken over by M&S. The whole area has gone much more upmarket. Rents are forcing out everyday shops in Marylebone High Street area*.

Figure 5.7 Uplift in value with distance from Elizabeth Street



Source: Grosvenor Estates/Ramidus Consulting

We were also given examples of pubs closing and being replaced by high value residential. A restaurateur described how his business had declined, attributing that decline to the fall in population due to partial occupancy.

> *It seems that the local estate encourages interesting food shops, which we all enjoy, but there is very little room for ordinary independent retailers.*
>
> *We have recently seen an application to change the laundrette in Ivor Place into a single family house. This is the last laundrette in the local area, which has many hotels and students who are likely to need this facility.*
>
> *A small pub in Dorset Square area was bought and immediately closed by a buyer who wishes to convert the premises into a townhouse, to the dismay of many locals for whom it was an important local meeting place for many years*.

There is a concern that the cohesiveness of the community is affected by changes to the physical environment that are enabled by development and exacerbated by the high value of residential land. These concerns centre around the loss of shared spaces such as pubs, local convenience shops, community centres and by a rising incidence of private space such as gated developments. These losses may be a factor of land value rather than business viability – the land on which the business stands has a higher value for residential.

It was suggested that a form of special protection could be given to some types of retail, perhaps modelled on the protection given to tailors in Savile Row and galleries in Cork Street.

One landowner stated his position in no uncertain terms: "*If it wasn't for planning policies to protect buildings and streetscapes I would build towers – I would have to – it's my job to maximise value."* Of course, he was exaggerating to make a point and it was very clear that all the estates we spoke to recognised the value of estate management in its widest sense, which includes valuing communities and continuity.

5.4 Under-occupancy in Prime residential property

To fully answer the question of to what extent Prime residential units are left vacant would require a large-scale primary data collection exercise and, even then, it would be difficult to establish the true extent of vacancy without the full cooperation of owners and occupiers.

However, we were able to consider a combination of data collected by official sources and our own consultations with residents, landowners and local businesses, to build a fuller picture of partial occupancy than would have been possible from any one source. Here, we draw together these strands to present the most comprehensive possible view of under occupancy, using the following sources.

- Council Tax data on discount for second homes.
- Census data for homes with 'no usual resident'.
- Census data for residents with second homes (to indicate partial occupancy, whether the Westminster home was a second home or a primary residence).
- Consultations with residents associations.
- Case studies for a small number of mansion blocks.

- Interviews with landowners.
- A workshop with businesses providing services to Prime households.

From these sources, we established the following facts.

- 7.5% of Council Tax payers applied for a second home discount in the year to April 2013.
- 12% of households in Westminster had ‘no usual resident’ according to the 2011 Census.
- 16% of residents in Westminster had a second home according to the 2011 Census.
- The incidence of second home ownership varied widely from ward to ward with some being considerably higher.
- 40% of residents in Knightsbridge and Belgravia had a second home, as did 25% of those in St James’s and in Marylebone.
- Our Mayfair case study mansion block was between 40% and 45% occupied on a typical night.
- Several mansion blocks in Marylebone reported between 40 and 60% occupancy on a typical night.
- 90% of Grosvenor’s private rental properties (ASTs) are used as principal residences. Howard de Walden has a portfolio of 700 rented flats which are fully occupied as principal residences.
- The 90-day residency threshold for UK tax liability often dictates patterns of occupation amongst Prime second home owners.

And we gathered the following opinions, which offer further insights.

- Many residents had a strong sense that there are more homes being under occupied in recent years but were unable to provide empirical evidence.
- We heard that tenants of rental properties do not necessarily use them as principle residences, they may also occupy infrequently, as second homes.
- The concierge in our Mayfair case study block believed that there had been a significant change in the occupation profile since 2007, with a noticeable shift from owners regularly occupying their apartments to a majority paying intermittent visits.
- It has been a feature of high value markets since the 1970s for wealthy Middle Eastern owners to use their London homes for a period of around six weeks of the year around the time of Ramadan.
- A high proportion of US citizens educating their children in the American School, in St John’s Wood, are not resident during June to September or in the weeks around Christmas.
- One Hyde Park is believed to be around 25% occupied at any one time.
- Several residents’ associations reported that the apartments in their blocks were around 40% occupied at any one time.

From all of this evidence taken together, we concluded that the incidence of properties being left vacant year round was low and not significant in terms of impact on the local economy or community. The incidence of partial vacancy was of greater significance and seems to be growing. In some parts of Westminster, partial occupancy is very high.

However, our consultations also revealed that Prime residences, even when occupied by the owners for only short periods of the year, generate substantial economic contributions. Indeed, there is a suggestion that owners of Prime property who use their homes for short periods of the year generate higher spend than those who live less ‘international lifestyles’.

The impact on community is more difficult to quantify. We found no data that could shed light on this question and could only rely on anecdotal evidence from our consultations.

6.0 The impact of the Prime residential market

In this section we seek to describe the impact of the Prime residential market in a number of different ways. We begin with an economic interpretation, before looking at spatial patterns; the impact on communities, and the impact on the wider housing supply market.

6.1 Impact on the national economy

One of the questions posed in the brief for this project was whether activity in the Prime residential market in Westminster has an impact on the national economy. A subsidiary question was whether restrictions (for example, fiscal or planning policy) might discourage investment in other areas of the country.

We do not believe that it is possible to quantify the impact of Prime property on the national economy. There is however one area where the scale of Westminster's property values (Prime and non-Prime) can be appreciated, and that is in the money collected by the Treasury via Stamp Duty Land Tax (SDLT).

Figure 6.1 shows SDLT collected by the largest (most populous) local authorities in the UK, together with Westminster. It can be seen that Westminster collects more SDLT than the 29 largest local authorities put together. Westminster's 224,000 residents (as recorded in the census) contribute more SDLT than the 11,200,000 living in the other authorities combined.

Obviously the data here include all properties, rather than just Prime, but the impact is clear. If we assume that the total value of Prime sales in Westminster in calendar year 2012 was £2.4 billion, then SDLT at 7% of the transaction price would be around £170 million. In other words, in approximate terms, Prime property accounts for around half of the Westminster SDLT yield for the year 2012-13.

The second part to the question about the national impact of Prime residential investors related to whether restrictions might discourage investment in other parts of the country. Our consultations with stakeholders suggest that the answer to this question is a qualified negative.

If fiscal or planning restrictions were sufficiently punitive, then investors are likely to be deterred from the London market. If this is the case, then any "onward" investment (i.e. investment by the same individuals in other parts of the country) might, likewise, be curtailed. Although this assumes that an overseas owner of a property in Westminster will make a decision about curtailing or withdrawing business investment on the basis of their personal situation in the residential market.

Such a scenario seems relatively unlikely given the more prevalent situation where companies rather than individuals make investment decisions. Our feedback suggests that the recent move to charge overseas owners Capital Gains Tax will be seen as "levelling the playing field" rather than targeting overseas sellers unfairly.

Figure 6.1 Stamp Duty Land Tax by local authorities, 2012-13

City	Population	£million SDLT, 2012-13
Birmingham	1,074,300	21
Leeds	750,700	23
Glasgow	598,800	16
Sheffield	551,800	15
Bradford	523,100	10
Manchester	502,900	16
Edinburgh	495,400	33
Liverpool	465,700	6
Bristol	428,100	28
Huddersfield	423,000	8
Macclesfield	370,700	29
Cardiff	345,400	12
Leicester	329,600	8
Wakefield	326,400	4
Coventry	316,900	6
Dudley	313,300	5
Nottingham	303,900	5
Newcastle	279,100	10
Sunderland	275,300	3
Brighton & Hove	273,000	33
Walsall	269,500	3
Rotherham	257,700	3
Plymouth	256,600	7
Hull	256,100	1
Milton Keynes	249,900	16
Derby	248,900	5
Stoke	248,700	2
Southampton	235,900	8
Swansea	238,700	5
Total	11,209,400	341
Westminster	224,000	348

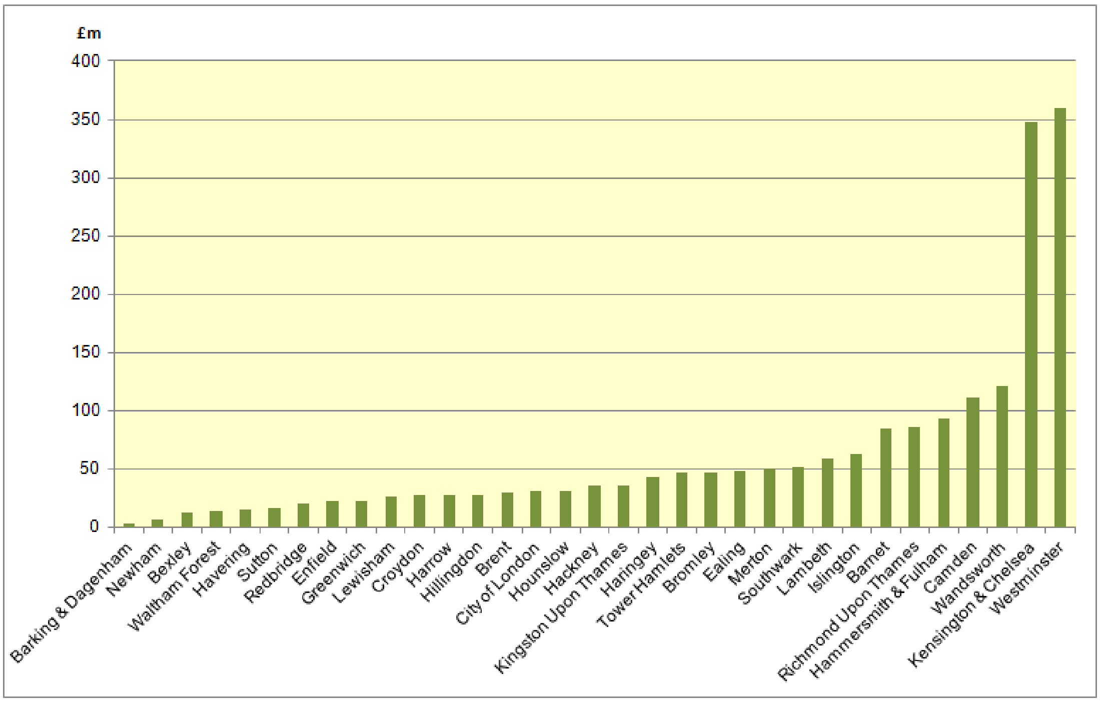
Source: HMRC[53]

A similar analysis can be undertaken for London to demonstrate the disproportionate contribution of Westminster. Figure 6.2 shows SDLT yielded by each borough, with a small number of high paying boroughs, and a long tail of boroughs yielding much smaller amounts. In particular, Westminster and Kensington & Chelsea each yield nearly three times as much as the next biggest

[53] HMRC (2013) *UK Stamp Tax Statistics*

contributors (Wandsworth and Camden).

Figure 6.2 Stamp Duty Land Tax by London boroughs, 2012-13



Source: HMRC[54]

6.2 Impact of individual Prime owners

This is one of the most politically sensitive areas of this study and we are extremely conscious of this. However, to balance the discussion about the impact of Prime property, it is vital to acknowledge the impact of the owners of that property. In this context, we refer to “impact” as meaning their “contribution” to the economy.

In order to address this, we have undertaken extensive discussions with wealth advisors in order to create a model to estimate expenditure by these owners. The model is of course exactly that – a model - because of the impossibility of gathering data on individuals and their transactional activities. But the variables used are derived from in-depth interviews with professionals working closely with high net worth individuals and we believe that it provides a robust and workable means of estimating impact based on reasonable insights.

It is well known that a number of overseas high net worth individuals own large international corporations, often employing UK citizens, and exporting goods and services overseas. We have *not* attempted to quantify this impact but have restricted our analysis to expenditure that can be traced directly to a household owning Prime property in Westminster. Equally, it is not possible to aggregate spending and then translate this into a meaningful aspect of the national economy.

We have constructed a household expenditure model for homes based on the £5-

[54] HMRC (2013) *UK Stamp Tax Statistics*

£15 million and >£15 million price bands (Figure 6.3). We have not included the £2-£5 million price band because there is a less distinct pattern of expenditure, and because it helps to under-estimate the impact, thereby making the case more compelling. The model but it has been sense-checked by a range of independent sources and verified as reasonable, erring on the side of caution. Further methodological explanation is given in Appendix One.

Figure 6.3 Household expenditure for owners homes valued at >£5 million

Cost element	Expenditure by price band (£)	
	£5-15m	>£15m
Employment & Professional	450,000	750,000
Personal	2,170,500	3,617,500
Health & Education	120,000	200,000
Total per household	2,740,500	4,567,500
All households	1,921,090,500	411,075,000

Source: Ramidus, 2013

We have assumed that the owners are in residence for just 90 days or 25% of the year. This is a natural threshold for 'non-doms' and almost certainly underestimates the time spent in high value homes, given that for many owners of Prime housing, the property is a main family home. However, a key issue driving this research is a concern that houses are occupied for only short periods of the year and so we have calculated the impact *even if* these homes are only occupied for 25% of the year.

We have also built the following assumptions into the model.

- Household living in home worth >£15 million: four person household, employing 7 full-time members of staff and living in the UK for 90 days a year.
- Household living in home worth £5-£15 million: two person household, employing 3 full-time staff and living in UK for 90 days a year.

There were 701 sales of homes worth £5-£15 million between 2003 and 2013. Making the very conservative assumption that households occupying houses of £5-£15 million spend around 60%[55] of the amount of >£15 million households, this generates around £1.9 billion of personal expenditure in total. As shown earlier, according to Land Registry and Lonres data, there were 90 transactions of >£15 million since 2003 in Westminster. Allowing for partial residency, this translates into a further total spend of over £410 million.

The real expenditure figures are almost certainly much higher – many high net worth individuals have lived in Westminster for decades. There are more than 14,000 Council Tax band "H" properties in Westminster, which is roughly concurrent with the definition of Prime. However, there is no reliable way to analyse the demographics, so we have focussed on properties transacted since 2003 because it

[55] Based on differences in size of household staff and lifestyle expenditure estimated in collaboration with life style managers.

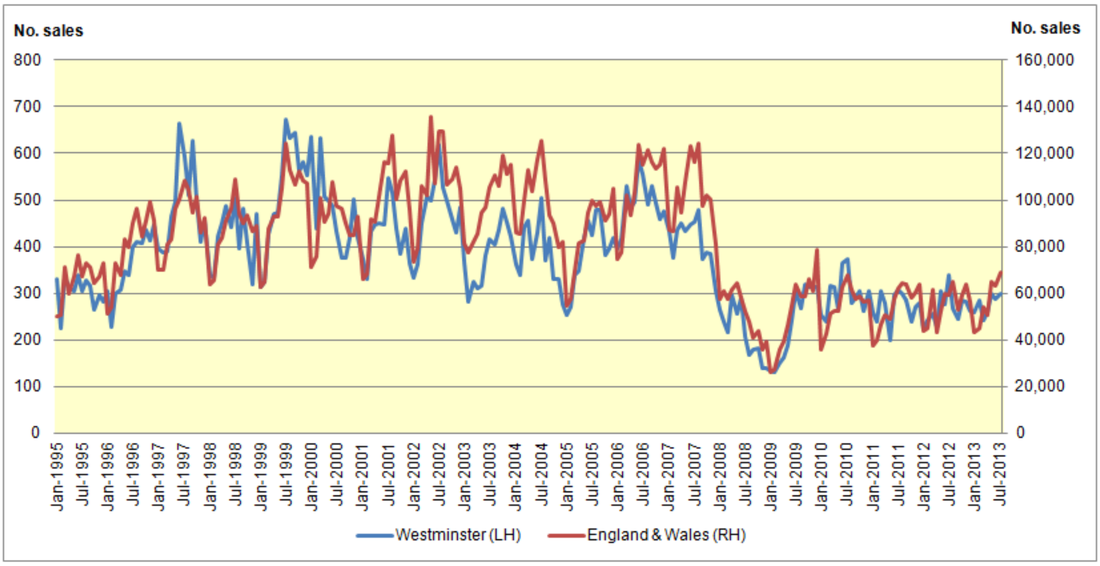
is reasonably safe to posit that most of this group has real spending power.

So, even if we assume that the households that we have included are the only Prime residents (as shown, an exceptionally conservative assumption), households in Westminster who have bought properties worth >£5 million over the past ten years, on very conservative assumptions, contribute £2.3 billion a year to the UK economy on their household expenditure alone.

6.3 Impact on the behaviour of the wider property market

6.3.1 The wider residential market The overwhelming body of evidence shows that the majority of the Westminster residential property market behaves is the same way as the national house market: the number of transactions fell off sharply after the credit crunch and remains well below pre-crunch sales volumes (Figure 6.4).

Figure 6.4 Volume of sales, Westminster and England & Wales, 1995-2013



Source: Land Registry (retrieved online)

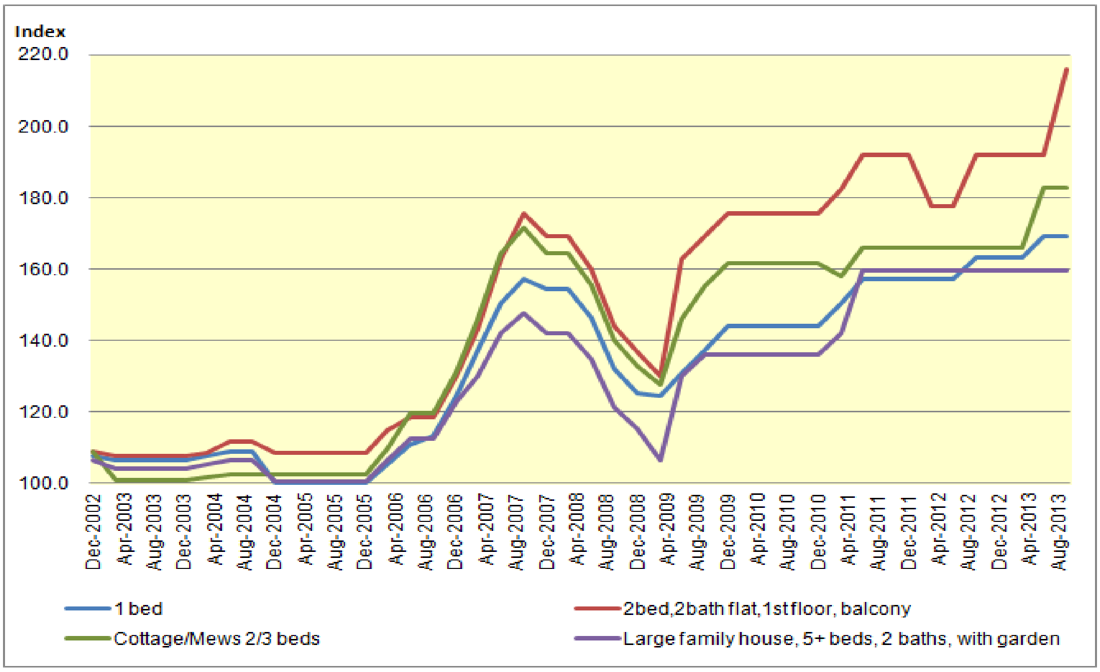
However, prices in Westminster have recovered their pre-crunch levels and continued to rise, as has been shown, and its relative affordability (prices compared with earnings) has worsened compared with both London and the UK.

But the reasons for this price growth cannot be explained by activity in the Prime price bands. The volumes of sales in these price bands are insufficient to significantly pull up the mean sale price, much less the median. Prices are rising for well-known property reasons, not least that both Westminster (along with Kensington & Chelsea) makes up the overwhelming bulk of the *central* London house market. In fact average prices, even in the >£2 million range, track most closely to national earnings.

Activity in the Prime market tracks with global indicators such as the price of gold: in other words, transaction volumes reflect global economic activity or investment decisions. Prices, on the other hand, do not. Price growth in the Prime market has been more modest than the lower price bands – and indeed top prices have fallen on average. It has been a commodity in high demand but with relatively stable pricing. This aligns with its role as a safe haven. The demand for Prime property, it seems, is not about speculation on a rising market, it is about security.

Further evidence that it is not the top end of the market driving prices is shown in Figure 6.5. In Mayfair, while the values of large family houses have levelled off since the beginning of 2011, values of flats have continued to grow, and grown quite sharply. These are exactly the properties that are likely to appeal to the urban professionals who are less dependent on credit that the mass market, but far from super-rich. Significantly, perhaps, it is also class of property that is most likely to appeal to buy-to-let investors.

Figure 6.5 Residential values in Mayfair, indexed, 2002-13



Source: Cluttons

In summary, activity in the Prime market tracks with global indicators such as gold: transaction volumes reflect global activity, as prices respond to a far wider set of influences.

If there is a problem with house price inflation in Westminster, the most likely culprit is the chronic shortage of housing that besets London as a whole, combined with the unique attractions of Westminster as a place to live with the added dimension of demand for buy to let investment in the lower priced, higher volume segment of the market which lends itself most readily to the private rental sector.

6.3.2 Other property sectors With a high degree of development in West End and St James's, the true extent of change of use from offices is probably masked by classification issues. The loss of business premises is non-trivial: such a loss has been noted by one landed estate, while another is maintaining commercial uses against the imperatives implied by market values, to maintain the mix of uses. In short: even the landed estates, with some degree of control of their mix, are having to "fly in the face" of market indicators to maintain that mix.

As noted in Section 3.3, according to H2SO, between 2001 and 2012, 5.22 million sq ft of office floorspace was lost to residential in Westminster, with a further 600,000 sq ft likely to go via unimplemented consents. Further, the rate of loss and the average size of loss has increased, with 1.2 million sq ft lost during 2012 alone, at an average size of 30,800 sq ft, compared with 14,500 sq ft in 2011.

The loss of offices equates to space for c30,000 workers, the bulk of which is likely to have been in West End and St James's wards. This space has been converted into around 3,300 dwellings.

We would have to make strong assumptions about mean household size to make up for this loss: 75% of Westminster households are of one or two persons. Indeed, the average household size for Westminster is 2.0, while in West End ward it is just 1.7. Even at the London-wide level, this would add less than 7,000 new residents.

While it must be made clear that a significant proportion of the 'lost' office space has simply been displaced to locales such as Paddington and Victoria, this process has had a material impact on the character and scale of the West End office market.

6.3.3 Structural impact Prime residential makes up a very small proportion of the market and is a scarce commodity. As such, it has attracted a premium value per sq ft. This is borne out by pricing information received from agents and applies to properties in the price bands > £5 million. It is not at fixed relationship. Were the supply to meet or exceed demand, that premium would shrink.

In the current market, there is however no discernible or predictable premium for size within the lower prime or mainstream core of the Westminster residential market. The price per sq ft of a one bed flat can exceed a two bed flat in one year only to be overtaken the following year. Within the market tranches, sale prices broadly reflect the square footage of a home.

Thus it is the case, that if a planning consent is limited by a density restriction based on number of units alone, a developer will be motivated to create larger units in order to maximise the value of the asset. This led to the birth of what has been described as the ‘accidental prime developer’. Equally, a planning requirement for units with, say three or four bedrooms, intended to create family housing, opens an opportunity for the developer to build large units with high values.

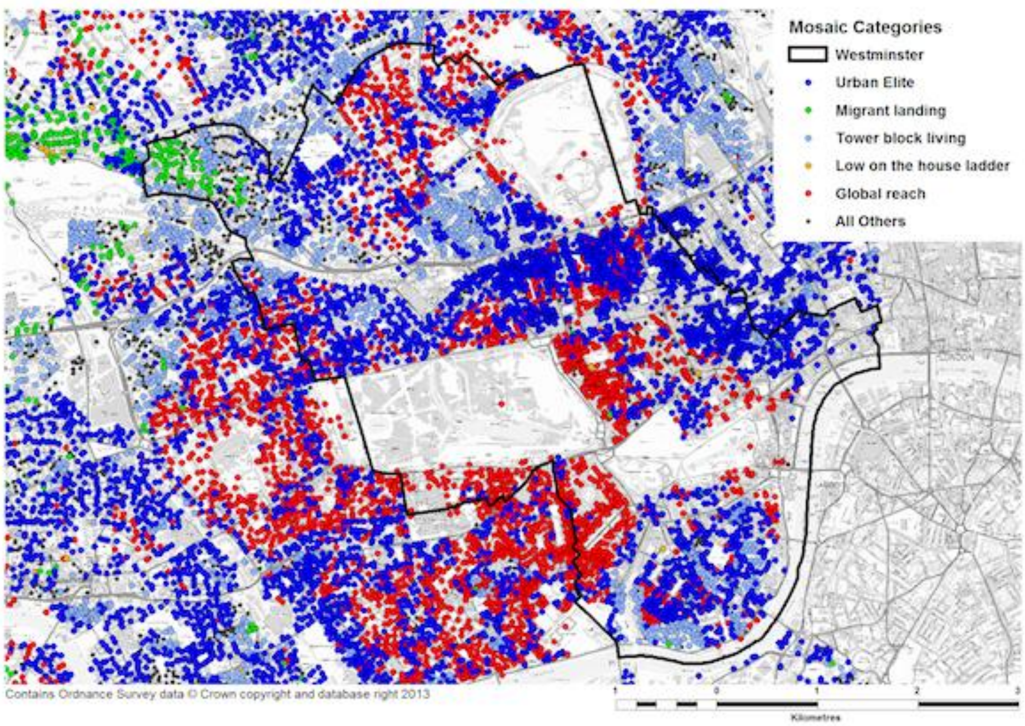
Thus the existence of a premium for Prime residential means that, in the absence of development management or policy levers, developers will design for this market as long as there is a demand and the areas of Central London that can support a Prime market have expanded.

6.4 Spatial impact

Prime activity shows a marked tendency to cluster around large green spaces, especially Hyde Park. To explore this pattern further, Figure 6.6a shows mapping of data using Experian's MOSAIC system of post code classification. This is a very detailed classification system in which each dot on the map represents the dominant social grouping in a six-figure postal sector.

We have aggregated MOSAIC data in a way that we feel represents the reality on the ground in Westminster and have, consequently, developed our own terminology in order to more accurately describe our groups. Figure 6.6b shows how the groups are aggregated from the Mosaic sub-groups.

Figure 6.6a Social groupings in Westminster, 2013



Source: Experian

Table 6.6b Ramidus classifications compared with MOSAIC groupings

Ramidus/MOSAIC classification	Mosaic description
Global reach	Global Power Brokers; Voices of Authority; Business Class; Serious Money.
Low on the housing ladder	Buy-to-let Territory; Brownfield Pioneers; Foot-on-the-Ladder; First to Move In.
Tower block living	Multi-cultural Towers
Migrant landing	Global Fusion
Urban elite	Convivial Homeowners; Crash Pad Professional; Urban Cool; Bright Young Things; Anti-materialists

Global reach (red) are those groups with an international outlook on life, often (though not always) very wealthy and broadly analogous to the Prime and near-prime buyers. It is, therefore, no real surprise to see this group cluster around the Royal Parks and St John's Wood.

Urban Elite (dark blue) are those groups who prefer and can afford urban living, comprising not only those groups often stereotyped as "yuppies", but also groups of "asset rich-cash poor". They are strongly clustered around Soho, Covent Garden, north of Oxford Street and areas that are recently seeing signs of gentrification.

Low on the housing ladder (gold) is a small group in Westminster, and comprises those setting out on the housing ladder or who exhibit a pioneering spirit in respect of emerging housing territories.

Tower Block Living (pale blue) are immigrant and lower social class UK natives living in high- and mid-rise estates. Unsurprisingly this group is most strongly clustered north of Marylebone Road and in the Peabody Estate areas near Victoria.

Migrant landing (green) are the most strongly multi-cultural areas and, although they may be associated in other data as suffering multiple-deprivation, this group is often highly aspirational.

These groups constitute the overwhelming majority of social groups present in Westminster, with the remainder from intermediate codes scattered around the borough. The similarity to the clustering of prime development activity is striking.

6.4.1 Ripple effect Until quite recently, the bulk of Prime homes were confined to Mayfair (in particular behind Park Lane), Knightsbridge, Belgravia and the borders of Regents' Park. However, more recently Prime prices have spread out, albeit not evenly, into adjacent areas. For example, Prime markets are now established on the banks of the river and in parts of Marylebone and Bayswater.

And prime properties are leap frogging into entirely new locations. For example, Europe's tallest residential tower, claimed to be catering for the prime market, was recently announced for Docklands, at Canary Wharf. Irish investor Thomas Ryan plans the 75-storey Hertsmere Tower, priced as prime real estate at c£1,000 sq ft with 714 apartments. The building will be taller than One Canada Square.

This spread of prime prices is mirrored in other price bands and geographies. In November 2013, Savills published research showing the impact of sharp price rises in central London on outer London and beyond into the wider South East region.[56] The research forecast rises beyond London, caused by "a classic ripple effect".

It is important to emphasise that this ripple effect is not a simple function of pressure arising from prices paid for Prime properties. Elsewhere in this report (Section 4.3) we quantify the relatively small scale of the Prime market in terms of sales volumes; and we also demonstrate that Prime sales behave differently to other price bands. The inference is that the ripple effect is being driven far more directly by the much greater volume of homes being developed in the £1-£2 million price band. Here, unsatisfied demand and land shortage are combining to inflate prices more rapidly than is the case in the Prime market.

Property sales by price To further explore the spatial dimension we have mapped some key information about Westminster. In order to illustrate a part of the wider picture of Prime sales, we have included Kensington & Chelsea in the mapping

[56] Savills (2013) *Residential Property FocusQ4 2013*

exercise. Figure 6.8 shows that sales of >£2 million, although reasonably widespread, manifest in a pattern of "core" (Knightsbridge & Belgravia) and "periphery" (e.g. Hyde Park, Bayswater). Narrowing down to the >£5 million price band shows the same concentration around Knightsbridge & Belgravia, but also a "hot spot" at St John's Wood and another along Park Lane (Figure 6.9).

Figure 6.8 Sales of >£2 million by post code sector, 2003-13

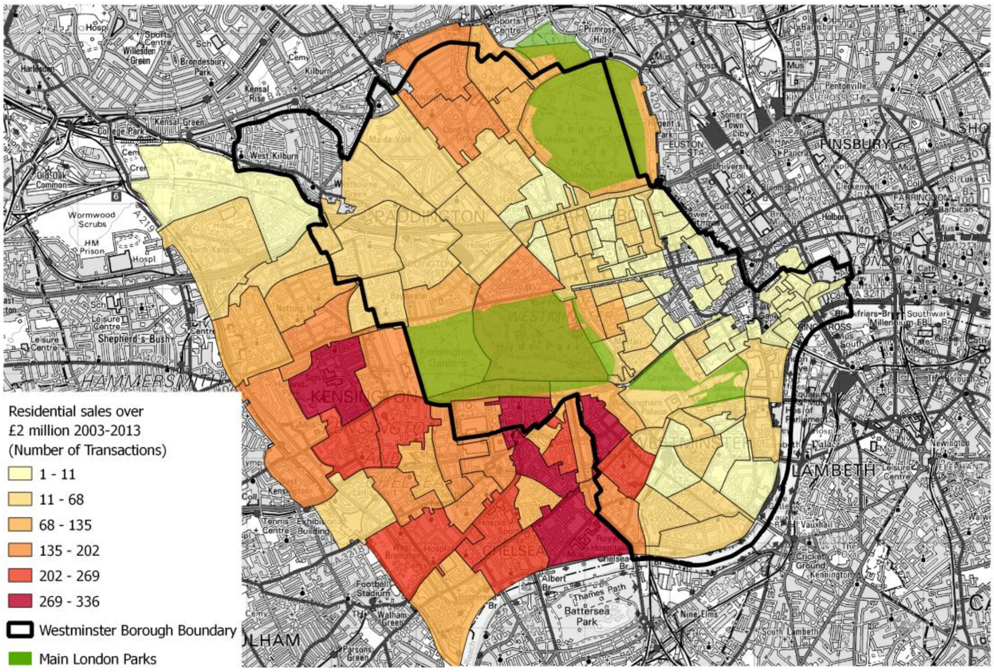
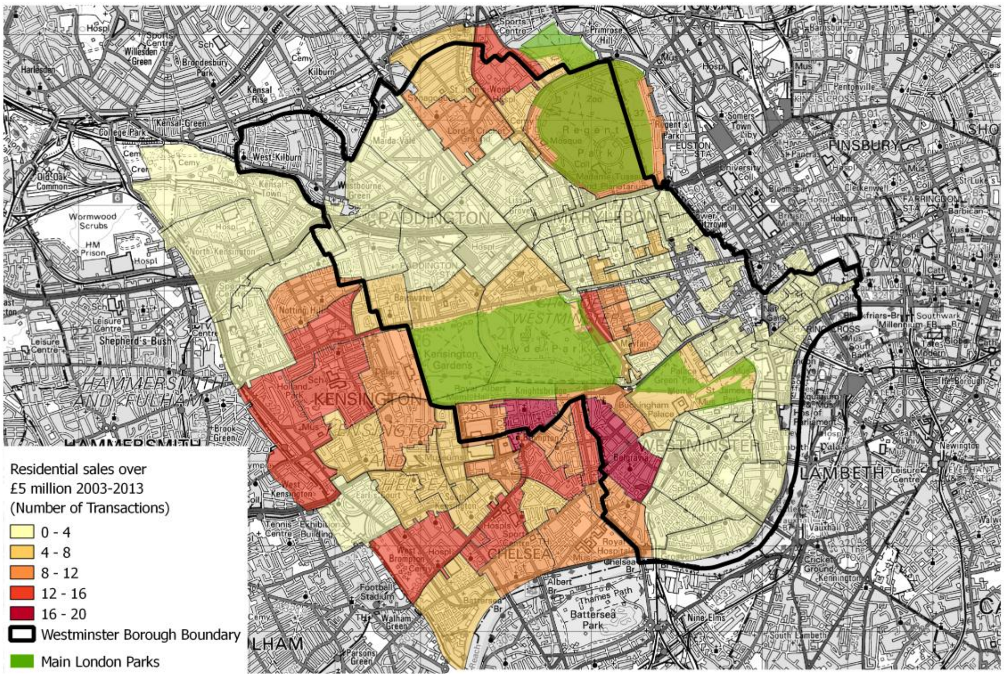


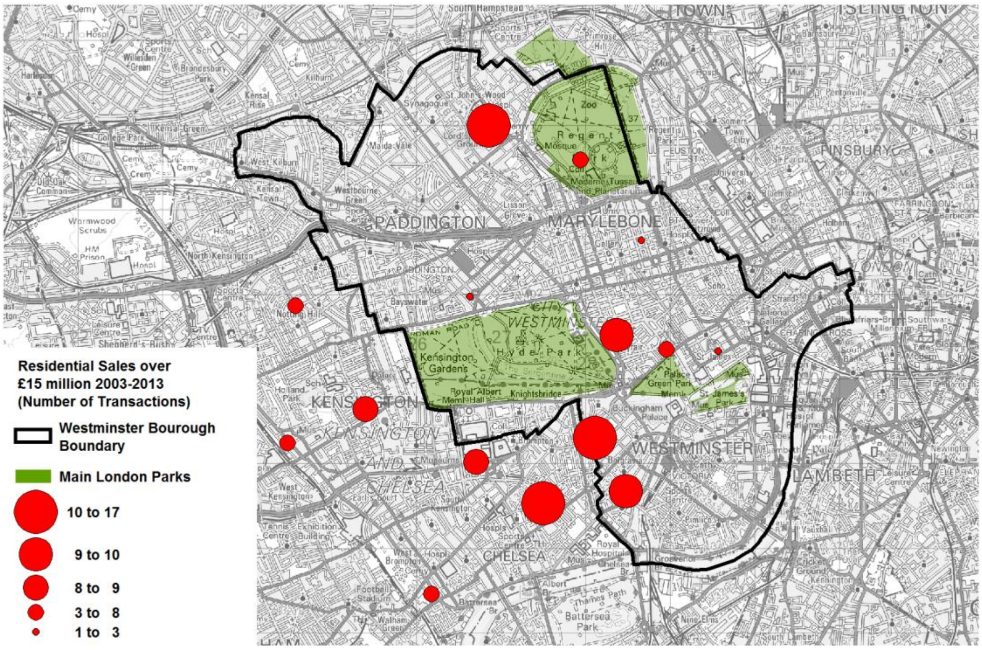
Figure 6.9 Sales of >£5 million by post code sector, 2003-13



Prime Residential Investment in Westminster

Looking at the >£15 million price band creates a need to look in a different way: there are few transactions, so postal districts were used to identify hot spots (Figure 6.10). The pattern is much as expected from previous maps, but with some notable outliers in all of the central wards.

Figure 6.10 Sales of >£15 million by post code district, 2003-13



Development and the injection of spending power can easily beget further renewal – and it does seem that the growth of Prime activity in Westminster has triggered similar activity elsewhere in London.

Against this it could be that even relatively well-off people are priced out of the market (especially significant for vibrant areas such as Soho and Covent Garden)

The mapping shows the strong preference of Westminster's Prime buyers for proximity to large green spaces (in particular Hyde Park and, on a smaller scale, Regent's Park). Such a preference is not unusual (see, for example, Central Park in New York) and it is a matter of practical reality that such locations will command a price premium, even in the absence of Prime properties.

As with other ripple effects, however, should this price premium spread further back, into areas away from the parks, then we could see "ordinary" residents pushed further from this amenity.

We found no discernible impact on Prime residential activity resulting from the changes to Council Tax Relief for second homes. Around 14,000 Westminster residential properties are in the Council Tax band "H", which attracts Council Tax of just £1,361.48 in 2013-14. Given the scale of Prime activity, without a comprehensive re-banding, the impact of Council Tax is trivial.

6.5 Impact on business and communities

The value of residential land is now greater than that for employment land across London. As we saw in Section 4.3, as well as earlier in this chapter, there has been extensive activity in the office-to-residential conversion market, with over five million square feet of offices having been converted to residential, in the West End, since 2001. At a reasonably generous 200 sq ft per person, this represents the loss of around 30,000 workplaces.

In November 2013, the Financial Times reported on research demonstrating a major shift in listed property companies' commitment to residential development. The report noted that London-based REITs "*plan to devote more than one-quarter of their activity to residential projects over the next five years and have lined up a £3bn pipeline of new housing developments*". This represents a doubling in activity compared to just two years ago. The report cited Land Securities as an example, where 45% of the group's development pipeline is residential, mainly in mixed use schemes, and which is establishing a specialist residential division.

The potential impact of Prime residential market on retail are twofold: it can support an economy of luxury goods and services that rely on high margins for low volumes, and, conversely, it can undermine the custom of convenience shops and services that rely on a high volumes of low margin goods and services.

Statistics provided by the New West End Company supported the contention that residents in prime districts boost trade for local luxury retailers. Surveys undertaken on behalf of retailers in Bond Street showed that average spending by local residents is over twice that of non-Westminster resident Bond Street customer. Our calculations of household expenditure discussed earlier also support this view.

On the other hand, our consultations revealed anecdotal evidence of convenience stores in some parts of Westminster being replaced by shops retailing luxury brands that were less suited to the needs of the local community. We were also given examples of pubs closing and being replaced by high value residential. A restaurateur described how his business had declined and he attributed that decline to the fall in population due to partial occupancy. We also heard concerns that once a convenience store changes to, say, a gallery, it is a much easier step to change of use to residential, thus threatening the existence of retail in any form.

It should be noted that retail is under enormous economic pressures across the UK and convenience stores have suffered from competition with supermarkets and online deliveries in locations quite unaffected by Prime residential markets.

However, the value of diversity in retail was acknowledged and places to stop and rest such as pubs, cafes and restaurants are valued by luxury retailers as well as residents.

The impact of Prime markets on communities is difficult to quantify precisely, but allowing for the wider definition of prime, the observations are reasonably consistent. Escalating residential values and volumes of sales activity in Westminster have increased the rate of change in the borough, which can be unsettling for established residential communities. High rates of construction activity are disruptive and deleterious to quality of life. Loss of amenities such as pubs and convenience stores and the arrival of retailers aiming at a different demographic are felt acutely by some.

Change in the scale and nature of housing stock through basement conversions and combining properties makes prime areas less affordable. It is also resulting in less mixed and balanced communities. Changes in the socio-demographic composition of neighbourhoods can undermine community and feelings of familiarity. Family members are not able to afford to buy homes in areas where they grew up. People employed in local businesses, even in well paid jobs, are not able to live near to their place of work.

6.6 Impact on the private rental sector

Westminster has a long tradition of people living in the private rental sector, not least on its landed estates. Nevertheless, in common with the rest of London, there was a large increase in this sector between 2001 and 2011. Private rental had accounted for 32% in 2001, but by 2011, 40% of all Westminster households were in the private rental sector. There were corresponding declines in the percentages of owner-occupiers and public sector renters. In London as a whole, while the proportion of private rental rose, it remained much lower than Westminster at around 25%.

The number of households added to Westminster's private rental sector between 2001 and 2011 was 14,500. Over the same period, Westminster's population expanded creating an additional 16,000 households. In other words the private rental sector has accommodated most of Westminster's increase in population over the decade between 2001 and 2011. There were only marginal rises in absolute numbers for the other two tenure types.

The question is: what impact has Prime activity had on this segment of Westminster's stock? The fact that Westminster has been able to accommodate most of its population growth in private rental stock, suggests that there has not been any negative impact on supply caused by Prime, or indeed any other factor. Some of the demand for private rental has undoubtedly been met by the provision of Prime property, as evidenced in our Mayfair case study (Section 5.3.1).

A reliance on the private rental sector is not new anywhere in London. Fifty years ago it was the dominant tenure type for all of London accounting for 46% of all households. It then declined through the next two decades, to just 17% by 1981 and hovered around that level until the last decade, with a steep rise since the credit crunch. Westminster has a significantly higher proportion than London, which we attribute to the high costs of buying homes, its mobile (often overseas) workforce and its student population.

However the contribution of the landed estates to supply is an important one. Our consultations with landowners confirmed a perception that tenants stay for longer periods in their private rental stock. For Grosvenor Estates, the average length of stay is 2.2 years in an AST managed by the estate, and 90% are occupied as main residences. However, that is not a universal experience. Evidence from residents in Marylebone mansion blocks suggested that it is not unusual for high value properties to be rented out as second homes and occupied only infrequently.

Moreover, at market rents, Prime property, even in the rental sector, is clearly not contributing to the supply of homes at prices within reach of 'ordinary' Londoners.

In meeting the demand for Prime property in Westminster, it is inevitable that there will have been missed opportunities to deliver homes of smaller unit sizes. We found evidence of properties being converted from a number of flats to large single homes, and the strength of demand for Prime property inevitably encourages construction of larger units to meet that proven demand.

Meanwhile the demand for homes at lower rental values has also increased. Lack of mortgage capital and a widening affordability gap has increased demand for rental properties since the credit crunch, while a cultural shift has made city living an aspiration for a wider segment of the population, especially amongst young people. The average age of first time buyers in London is 31, compared with 29 nationally, and 60% of tenants in the private rental sector are under 35 years old. As we have seen, the affordability gap is particularly acute in Westminster and has expanded.

The capacity of the Westminster housing market to meet this scale of increased demand for private rental stock is perhaps more surprising and must, at least in part, be attributed to the development of new (but not specifically Prime) housing stock which has been sold to investors and injected into the private rental stock. Savills estimates that 56% of prime new build stock sold to overseas investors finds its way into the private rental sector. In 2012, that was 3,000 properties in what Savills defines as ‘prime London’.

The supply of private rental property has not only kept pace with the increased volume of demand since 2008 but there is evidence that it has begun to outstrip demand in some parts of London. Despite reports of steep rises in rents, there is evidence to show that in central London, rents for good quality one and two bed flats have been relatively stable for the past two years, *as a result of* increased supply. This can only be a good thing for tenants and for stability in the housing market.

> *Average rents across prime London fell by 0.5% in the three months to the end of September, to leave values down 0.9% year-on-year. Savills said this continues a trend of lacklustre growth seen since mid-2011. …. Savills said the falls have been triggered by rising stock levels and reduced corporate relocation and City employee budgets.”*[57]

Westminster population is forecast to grow by almost 20,000 by 2020 and, without the addition of public sector housing, it seems likely that much of this will rely on the private rental sector for accommodation. Despite government attempts to encourage the emergence of an institutional private rental sector, there is little evidence of it gaining much of a foothold in Central London as yet. Indeed, there is anecdotal evidence that developers resist private rental as a tenure type because of its perceived negative impact on a predominantly owner occupier community. For this reason, it seems likely that individual or small investors will remain an important source of supply to this market and as such the direct relationship between prime residential activity and the increased supply of private rental stock must be acknowledged.

In summary, Westminster has a long-established and strong private rental sector supplied by its landed estates and by smaller private landlords. The sector has

[57] Financial Times October 12th/13th 2013

grown over the past decade and has enabled the borough to meet rising demand. Rental value growth has stabilised in the past two years, suggesting that supply has kept pace with demand. Prime residential property offered as rental stock has contributed to the demand for high value rental stock.

However, at market rents, these homes are not accessible to families on lower incomes and the private rental sector does not offer a solution to the unmet need for Affordable or public sector rented housing. Indeed, as individual properties are created to meet the demand for Prime stock, or existing homes are combined and extended, the housing stock is being adapted to the demands of a more affluent population with the inevitable squeezing of supply for 'ordinary' Londoners.

6.7 Impact on the delivery of new homes

According to some observers, the level of activity in high value housing in Westminster, particularly by overseas owners, has had a positive impact on the wider housing development agenda. For example, with regard to overseas investors, Savills[58] recently noted that a proportion of new housing development

> *has only been possible in recent years because international buyers, many of them from Asia, have effectively funded new schemes by buying units off-plan, in advance of completion.*

Savills go further, to suggest that "*It is probable that fewer new schemes, including Affordable Housing would have been built without this activity from overseas buyers".* This view was reinforced by Whitehead and Travers, of the London School of Economics, who argued that activity in the new build market has:

> *undoubtedly been the most important factor in enabling residential investment in central London to increase rapidly. This in turn has helped build confidence in inner and outer London and now the South East where domestic purchasers dominate.*

The LSE team continue:

> *international investment is often the difference that makes it possible for a project to go ahead. It supports cash flow and underpins the provision of public amenities. As a result, London has had more employment, more tax revenue and more potential for economic growth than it would have without this investment.*[59]

Further endorsement of the positive role of overseas activity has come from London First. While not specifically referring to Prime as defined in this report, the work reinforces the importance of international investors in helping to "kick start" housing schemes in the capital and generate wider social benefits.[60] The paper notes the trend among developers to market and sell properties (prime and non-prime) "off plan", or before they are built. Such activity generates cash and guarantees future investment in developments, which "*can be vital to securing constrained debt finance*", supporting "*swifter investment in further development*", and is particularly

58 Savills (2013) *The World in London*
59 Whitehead C & Travers T (2013) *Creating the Conditions for Growth*
60 London First (2013) *The Impact of Inward Investment on the London Housing Market*

important in "*complex development schemes where development takes place in phases*". The report cites JLL data which show that *"£3bn of cash brought into the new build London market by overseas purchasers in 2012 was critical to underpinning the market as a whole*".

Developing the theme of overseas money underpinning new development, the London First research argues that inward investment results in the delivery of Affordable homes and wider social benefits. Affordable homes are discussed in more detail below. In terms of wider social benefits, London First notes that new housing development provides for employment for local people:

> *through a combination of the Community Infrastructure Levy payments and further planning agreements which provide for site specific local improvements such as roads, schools or healthcare facilities, as well as attracting funding from the New Homes Bonus for local communities*.

London First suggests that constraining inward investment would reduce the total investment into London housing and therefore "*investment into social housing and the wider social benefits that housing brings*".

6.7.1 Impact on Affordable and intermediate housing The practical reality is that there is little incentive in the open market to deliver Affordable and intermediate housing: as explained above, the strongest signals for house builders are at the very top end of the mass market.

There are two important impacts of Prime residential on the provision of Affordable and public sector rented housing. First, the simple fact that development activity has continued in the Prime London market throughout the recession, has created the possibility that Affordable and public sector rental housing can be provided alongside the private development, through Section 106 agreements when triggered by policy.

Second, the rising value of land for residential development raises questions about the appropriate location of Affordable and public sector rental housing. While the policy requirement is to build on the same site, pragmatism might suggest that the Affordable and public sector rental housing could be provided elsewhere on land with lower costs.

In terms of Affordable Homes the London First research, found that Affordable Housing comprised 38% of the net new homes built in London in 2011-12, a contribution that had been stable over the previous three years.

> *The contribution of private sector schemes will vary by development, but typically is around one-third of the total homes built and in total, between 2008/09 and 2011/12, 35,721 affordable homes were delivered in London through planning agreements.*

In the period since the credit crunch many developers renegotiated the Section 106 Affordable Housing provision attached to planning consents, arguing that the project is no longer viable following the Government's 60% cuts to housing subsidy and a changed economic climate. In many cases, the obligation to build an element of public sector rental or Affordable Housing, which might previously have amounted to a number of public sector rental and Affordable units equal to the private units, was commuted into a financial contribution to an Affordable Housing fund.

While not specifically related to Prime, the City of Westminster has considerable funds allocated from new schemes for new Affordable Housing. A review of extant permissions in Westminster shows that there is £150 million (including £78 million from the Chelsea Barracks scheme) allocated through Section 106 agreements for new Affordable Housing.

6.8 Floor size and vacancy

We were asked to comment on whether there a floorspace size threshold where homes are more likely to be left vacant for the majority of the year? Could a matrix be developed which shows the prevalence of type of investor and vacancy rates against size of properties?

There were conflicting views on this issue. One landowner explained that the larger the house, the more likely it is to be used by a family living in London. Another, took the view that the larger the property, the more likely it is to be used as an investment and left unoccupied for all or much of the year.

It is certainly easier to identify a vacant house than a vacant flat from the street and so the lights out story is more likely to be woven around houses. Our consultations suggested that owners of large houses tend to leave staff in residence when they are out of the country and they will probably live in staff quarters, often in the basement. Smaller houses might accommodate their staff off-site in a mews or nearby flat.

Small apartments lend themselves to the rental market and are most likely to be used as homes for renters, if not owners but these are probably not in the Prime price brackets. Within the Prime market we found no evidence of a direct relationship between size and likelihood of vacancy.

In answer to the question of whether a matrix could be developed to plot the type of investor against vacancy rate, it is the case that buy-to-let investors are most likely to invest in units between 500 and 1000 sq ft which let in the mainstream market and sell for between £500,000 and £1 million. These attract yields of around 4.5%.

7.0 Conclusions

The central purpose of this research project has been to gather an evidence base to quantify and describe the Prime residential market in Westminster. We have done this by reviewing evidence on residential stock, new development, property sales and buyer profiles. We have also assessed the qualitative aspects in terms of the public debate and feedback from stakeholders with whom we consulted. We then described the impact of the Prime market from a variety of perspectives.

We write in the context of two central questions, each with a stark answer.

- Does the increasing price and volume of higher value housing impact on Westminster's ability to meet housing needs in the borough?
  It is hard to deny this.

- Is there a planning policy that could mitigate or change that, without creating alternative problems?
  We cannot envisage one within existing frameworks.

We reiterate here what we see as Westminster's intractable problem. Westminster has a finite supply of land, it is already expensive and no-one is advocating building at a higher density. And yet Westminster, in common with the rest of London, has an already severe shortage of Affordable Housing, a growing population and intense pressure of demand from UK and overseas buyers, as well as renters. It also has a very large nationally important economy. It is inevitable that prices, already high, are being driven ever higher, and that the cost of a home in Westminster is moving further out of the reach of ordinary Londoners. One way to control price rises is to build more housing but – and here we complete the circle – land in Westminster is in very short supply. Without the unlikely scenario of substantial subsidy, it is not possible to build Affordable Housing in Westminster. By any standards, that is an intractable problem.

Of course, it is the case that sites that might otherwise be capable of accommodating a larger number of homes are developed as large Prime homes, but we have shown that the number of sales of >£2 million is small in the context of the whole market. Denying these opportunities would be to stifle a substantial source of revenue to the London and UK economy.

When we come to set out our reflections on policy implications, we recommend a pragmatic approach that seeks to harness the substantial potential contributions of the Prime market more effectively and to find ways to mitigate the negative impacts of change in Westminster. First we set out the key findings of our empirical work.

7.1 New supply and sales

The City of Westminster has around 118,000 residential properties, an increase of at least 15% since 2001. Of the total, 66% are flats, a proportion that has increased markedly in recent years.

7.1.1 New supply Between 2007 and 2010 around 100,000 sq m of net additional residential space was given planning consent, rising to 280,000 sq m in 2011; 490,000 sq m in 2012 and 210,000 sq m in the first three quarters of 2013. In terms of net additional flats, these ranged between 500 and 900 consents from 2007 to

2010; rising to 1,500 consents in 2011, 2,500 in 2012 and 1,000 in the first three quarters of 2013.

These figures suggest that new home provision in Westminster defied the impact of the credit crunch, unlike the wider residential market, which was starved of development cash for several years (and, arguably, still is). This fact alone suggests that new home provision in Westminster has, in recent years, been driven by exogenous forces.

The recent increase in housing supply is set to continue. The current development pipeline, at Q3 2013, includes around 550,000 sq m of space under construction, and almost 600,000 sq m of schemes permitted but not started.

A significant proportion of Westminster's new stock has also been provided through conversions from office stock. Since 2001, over five million square feet of offices have been redeveloped into homes, with unimplemented consents bringing this total closer to six million square feet. The conversions and consents will together result in 3,329 new residential units, and the displacement of c30,000 office jobs.

7.1.2 Number and average price of sales Of Westminster's approximately 118,000 dwellings, 30% are in the public rented sector, leaving 83,000 that can be traded in the open market. Between 2003 and 2012, 43,000 homes were traded, at an annual turnover average of 2,700 to 6,000 (or 4-5%).

Price recovery in Westminster since the credit crunch has been sharp: while in 2006, 6,000 transactions involved £4 billion, in 2010 the same value was achieved through 3,700 sales. In other words, prices climbed steadily through the recession, even though the volume of sales fell; and in 2013, the rate of growth escalated. In the period since 2003, average prices more than tripled. Since 2008, the average price paid for a home in Westminster has risen from £875,000 to £1,575,000.

7.1.3 Prices and affordability There is evidence that prices have been rising more sharply in Westminster than elsewhere in recent times. The 1995 average Westminster house price was 160% that of London, while in 2013 this had risen to 220%. Further, while the scale and pace of house price rises has accelerated, the proportion of homes being bought with cash has risen to more than a third for the first time.

In terms of affordability (the ratio of house prices to earnings), data suggest that Westminster is getting more expensive, and less affordable. While the ratios for the UK and London have remained essentially stable since the credit crunch, house prices in Westminster have become steadily more expensive relative to earnings.

7.1.4 Sales The number of sales of <£1 million (80% of all sales in Westminster) fell from 2006 to 2008 and made only a marginal recovery to 2010 before declining again in 2011 and 2012. This reflection of the wider London market is to be expected. By contrast, while sales of £1-£2 million also began to fall after the credit crunch, they quickly recovered to pre-credit crunch levels, and continued to rise.

Over the period 2003-12, there were 3,335 sales of >£2 million in Westminster, representing just 8% of the total 43,000 transactions, but £15.4 billion (or 41%) of the £37.7 billion value. These Prime sales comprised 2,544 in the £2-£5 million price band; 701 of £5-£10 million and 90 of >£15 million. Setting aside the lower of these three price bands, there were 791 sales of homes at >£5 million, with a combined value of £7.6 billion. These represent just 2% of all transactions, but over 20% of the value.

It seems from our analysis that Prime residential sales (>£2 million) are behaving differently to the core market (<£2 million). We sought to understand this more closely by comparing changes in property price bands with earnings and the price of gold – measures that might be expected to reflect sales trends, depending on whether they are responding to local or global economic signals.

The relationship between the volume of Prime transactions and the price of gold is strong, suggesting a correlation with conditions in the global economy. There is no such relationship with the average *price* of sales of >£2 million, which closely mirrors national earnings. This strongly supports the notion that Westminster property is seen as a safe haven in much the same way as gold. However, while buying patterns are similar to gold, residential prices are more stable – surprisingly stable given the strength of demand and the popular perception.

The data do not support the hypothesis that Prime activity has fuelled a house price bubble, either in this price band or the wider Westminster housing market. So if Westminster prices are rising, it is likely that the explanation lies in structural problems within the market, rather than the presence of Prime investors. This is not to deny that the growing number of very high value transactions in Westminster has potential social and economic consequences.

7.2 Overseas buyers

While the Prime market is relatively small, it has attracted a disproportionate coverage in the print and broadcast media. Much of this attention has focused on the role of overseas buyers. We were not able to source data specific to overseas purchasers of Westminster sales of >£2 million. However, taking an average of data from three agents active in the central London market, we estimate that over half of all sales are to overseas buyers, and in Belgravia, Knightsbridge and St John's Wood, that proportion rises to more than 60%.

For new build properties the proportions are significantly higher. We do not have a breakdown of buyers of new build properties sold for >£2 million but, based on data for all new build stock, the proportion of overseas buyers rises to 73% of all sales[61]. The vast majority of these either occupy or let their purchases, although our consultations suggested that the incidence of under occupation (second homes) is greater in properties sold for >£5 million.

Knight Frank data for all sales of >£1 million in central London in 2012-13 show that 49% were to overseas buyers and 28% were to overseas buyers not resident in the UK. In other words, 72% of overseas buyers were resident in the UK, although most of these were investors looking for an income return through letting.

If we assume the same ratios for Westminster, for the >£2 million market and for the number of non-resident buyers, then an approximate annual average 450 sales of >£2 million (as seen over the past four years), translates into 220 sales going to

[61] Savills (2013) The World in London

overseas buyers, and 126 sales to non-resident overseas buyers. While this is obviously a rough approximation, it does nevertheless give an order of magnitude to the scale of Prime overseas purchasers (particularly by non-resident owners who, by extrapolation, will form a minority of the 126 sales), when compared to Westminster's typical stock turnover of 4,720 to 5,900 units.

7.3 The impact of the Prime market

The impact of the Prime residential market can be viewed from several perspectives and we have described these in detail in Section 6.0. The summary findings are given below.

National and local economy It is widely recognised that many Prime home owners in Westminster own businesses, often employing UK citizens, and exporting goods and services overseas. But actual evidence is not available. So measuring the impact of this cohort on the national economy is not possible.

However, we prepared some evidence around two themes. First, we demonstrated that, overall, Westminster contributes more SDLT than the 29 largest local authorities of England and Wales, *combined*. When adjusted to reflect Prime property, it can be seen that of the £338m of SDLT raised in Westminster in 2012, around half is generated by Prime properties.

Secondly, we calculated annual personal expenditure of Prime property households, based on the number of Prime sales in Westminster since 2003. We demonstrated that the 701 homes worth £5-£15 million sold between 2003 and 2013, based on very conservative assumptions, generate around £1.9 billion of annual household expenditure in total. On the same basis, homes in the >£15 million price band generate a total annual personal expenditure of over £410 million.

Based on transactions alone (a large under-estimate of the actual number of households) this suggests annual spending – in the Westminster, London and UK economies – of c£2.3 billion annually. This is conservative estimate is more than the £2.1 billion estimated to have been generated by tourism during the 2012 London Olympics, and it will be generated year after year.

Spatial impact It is clear from our mapping exercises that Westminster's Prime residential market has grown in recent years. It is also clear that growth has not been even across the borough, and that a small number of significant concentrations are evident.

Prime residential shows a marked tendency to cluster around large green spaces in Westminster, especially Hyde Park. Areas such as Soho and Covent Garden also show strongly. In addition to the spatial concentrations within Westminster, there is strong evidence that the Prime property market is spreading beyond Westminster (and its concentration in Kensington & Chelsea).

Impact on the private rented sector Westminster has a long tradition of housing in the private rental sector, not least because of stock managed by the landed estates. In 2001 32% of the population was housed in the private rental sector but by 2011 that had risen to 40%. In that period the number of people living in private rental accommodation in Westminster rose by c14,500 while the number of owner occupiers changed very little.

Westminster's population is forecast to grow, and it seems likely that many of its additional residents will rely on the private rental sector for accommodation.

Despite the role of the landed estates and the potential growth of institutional private rental, it seems likely that individual or small investors will remain an important source of supply to this market. As such the direct relationship between prime residential activity and the increased supply of private rental stock must be acknowledged.

Impact on the delivery of new homes and Affordable housing There is good evidence available that the presence of overseas buyers in central London has helped to underpin the delivery of new homes, including Affordable Homes as well as wider social benefits in recent times. The more financially viable a development, the larger the potential surplus available for a contribution to Affordable Housing. It seems logical to assume that the planning consents that were renegotiated in recent years to reduce the Section 106 contributions, will be those in more marginal locations where viability is more easily eroded.

Impact on the community Part time residence is not a new phenomenon in central London. The pied-a-terre for wealthy London workers and the town house for wealthy families are both long established traditions of Westminster's residential property market.

However, evidence from our consultations suggested that the incidence of partial occupancy is rising and there are more examples of owners being in residence for very small parts of the year. Moreover, there is considerable unease with the consequences of under-occupancy for the provision of local facilities and the negative effect on community cohesion. Our Mayfair case study showed occupancy levels of 44% and was consistent with observations from residents who reported 40% occupancy levels in mansion blocks in parts of Marylebone.

The rising incidence of buy to let, corroborated by the census data, increases the volume of turnover in a local population and can therefore be disruptive to existing communities. Our consultations found evidence in some places of a substantial shift from owner occupation to private rental. In the Mayfair case study, the concierge reported a change from predominantly owner occupied in 2000 to predominantly rented or second home in 2013, with 2007 marking a watershed. In one Marylebone Mews 52% of properties were rented out and two thirds of those renting were transient. In a Marylebone mansion block, residents reported that the flats were now only 15% owner occupied with the balance being rented out or second homes.

Westminster has a high rate of turnover in its population. It has been around 30% per annum since at least 2002 however, the residents in our consultations reported an increase in the turnover as the proportion of buy to let properties has risen in their immediate localities.

7.4 Policy implications

Our research here has demonstrated that while the Prime property market forms a large proportion of the borough's residential market in terms of value, the number of properties involved is relatively modest. This is not to deny the wider issues around perceptions of its impact on community cohesion and vitality, but simply to provide a specific context to spatial policy considerations.

Westminster has long been an expensive place in which to own a home and there is no reason to expect this to change; in fact our analysis shows clearly that the affordability gap is widening. Westminster is becoming progressively less affordable and its social structure more polarised. Its roles at the heart of a capital and global city simply exacerbate this situation.

The City of Westminster clearly has a difficult line to walk. On the one hand it must aim for a framework within which a range of housing types can be delivered to meet the needs of a broad demography. At the same time, pressures on its highly constrained land supply are such that, left to itself, the market will not deliver new homes at prices that are accessible to any but the most affluent groups of society.

Given this seemingly intractable problem of affordability in Westminster and the limited funds available to address housing need, there is limited scope for locally devised spatial planning policies that will radically improve Westminster's ability to provide more housing at accessible prices. Moreover, the size of Westminster's Prime market is such that any measures devised specifically to restrict it could be deemed discriminatory, and not in London, or the UK's wider interests.

We recognise too, that Westminster is already addressing several of the issues that arose from our research, including: design review and community consultation; basement extensions; combining properties and protection of some business types.

These factors lead us to the conclusion that the peculiarities of Westminster's housing market mean that there are issues that need to be resolved at a strategic level. The wider question of housing provision in Westminster, across all price bands, should be addressed as part of a London strategy through co-operation between boroughs (particularly within central London), and with the involvement of the Mayor's office, and Government.

We support the London Finance Commission's recommendations that the full suite of property taxes (annual tax on enveloped dwellings, business rates, capital gains tax, Council Tax and stamp duty land tax) should be devolved to London government, which should then have devolved responsibility for setting the tax rates and authority over all matters including revaluation, banding and discounts.

We suggest also that consideration is given to the introduction of an additional property tax to be levied on homes that are occupied for fewer than 90 days of the year. Westminster could explore the practicality of a hypothecated tax, a 'Community Contribution Tax' (CCT), that could be used to directly support a community activity or facility. This would be distinct from CIL, which is levied on developers during the development process.

The key features of a CCT would be as follows.

- It would be levied on owners who retain homes for their own use (not for letting) but do not spend more than a specified period of time at the residence during the year.

- There should be a direct line from the payment to the project, and the project should directly benefit the local community.

- It should have a clearly defined geographical boundary of a locality for the purpose of the CCT. It might therefore be appropriate to align it with the boundaries of a neighbourhood forum or plan.

- The payment might be tapered according to how often or how long the property is occupied.

- There must be a transparent and audited process for approving the projects and allocating expenditure. Projects could be selected from a list approved by the neighbourhood forum and endorsed by the local authority and/or it may be appropriate to create a process that includes public consultation or gives residents the right to vote on projects.

- Further work would be required to work out the precise mechanism for applying and collecting the payment, including consultation with communities and with charitable organisations that currently support community projects and have experience of channeling funds into location-specific activities. Landed estates might also be a useful sounding board.

A CCT as described would complement the emphasis in urban thinking on making cities livable and building community. The CCT would enable owners to play an active and constructive role and have a stake in their locality that goes beyond a single property investment. It should be presented as a positive way to connect with the locality in which they own a home, even during their absence and would help to address concerns about disconnection that is associated with part time residency.

Given our overarching conclusions, we have set out our own policy implications for consideration at three levels of political responsibility.

7.4.1 Central Government

- Ring fence proceeds from Westminster's SDLT to help finance and maintain its existing social housing stock.
- Introduce at least three additional Council Tax Bands, covering properties valued, in today's prices, at £2-£5 million, £5-£15 million and >£15 million.
- Work towards a simpler, unified and more predictable property tax regime, in order to nurture a climate of certainty and fairness.
- Introduce an additional property tax to be levied on homes that are occupied for fewer than 90 days of the year, and explore the practicality of a hypothecated tax, a Community Contribution Tax, that could be used to contribute to a community activity or facility. Neighbourhood forum areas might be an appropriate administrative unit.

7.4.2 Collective approach: pan-London and Mayor's office

- Given the particular conditions in Westminster's housing market, we suggest that some of the funds collected in lieu of Affordable Housing, should be spent where land costs are lower, beyond the Westminster boundary. We recognise that this is a controversial proposal. It contradicts Westminster's stated objective of meeting housing need within the borough. However, Westminster's rising land values are a fact; and it will be increasingly difficult to provide

Affordable Housing. Cross-borough policies would acknowledge Westminster's unique role in the UK and London economy, such that the borough is not treated as an "island" in policy terms.

- It would be important to minimise any economic disruption this would cause, for instance to workers unable to live close to their place of work.
- Seek support from public funds to subsidise public transport costs for low paid workers in the borough to travel longer distances. Working with Transport for London, consider a flat rate zone 1 fare for workers earning below a minimum threshold employed within the borough.

7.4.3 City of Westminster

- Deliver, where possible, public sector rented homes for local people and shared ownership homes for local key workers within the borough.
- Westminster should, wherever possible, seek to retain Affordable Housing on site, in order to create and preserve mixed and balanced communities. It should also consider a tiered mechanism for negotiating Affordable Housing provision to reflect land value.
- There is no official source for data showing the extent of wholly or periodically vacant properties. Westminster should initiate a process to collect more accurate data either through Council Tax returns or periodic survey work.
- Westminster could be exercise flexibility in negotiating the requirement to match an increase in office floorspace with equivalent residential square footage. It could consider lower ratios of residential on some office schemes in order to support the viability of office developments.
- The interaction between the price band immediately beneath Prime (i.e. £1-£2 million) and the remainder of the mainstream need to be more clearly understood in terms of supply patterns and ownership patterns, and in terms of its relationship to supply and pricing in the private rented sector.
- Create longitudinal data to measure and monitor change through regular survey work to record changes in, for instance, levels of occupancy; membership of residents' associations; loss and gain in local amenities; use of facilities and so on. This might be administered via neighbourhood groups.
- Consider a way to incentivise landlords and tenants to agree leases in the private rental sector for periods of more than two years.
- Consider the more widespread use of special policy areas to protect certain streets or uses, such as independent retailers.

Appendices

Appendix One: Method statement

We outline below the main elements of work that have resulted in this report. These include a literature review, analysis of several sources of data and consultations with stakeholders, including two workshops and a series of interviews.

Literature review The question of Prime property in Westminster, and in London generally, has become very topical and there has been proliferation of articles, papers and general commentary. We undertook a detailed review of published material which provided context, data and leads for consultation.

Data sources This section provides a brief overview of the main data sources used in the report.

Chapter 2 focuses on population, households, occupancy and tenure. The main source of data for this section is the national Census, mainly 2001 and 2011. Base population numbers are also drawn from NOMIS and the Annual Population Survey; while population projections use GLA data.

Chapter 3 turns to residential stock and new development. Dwelling and housing structure data are, again, taken from the national Census. The City of Westminster's in-house database, Respipe (derived from the in-house Decisions Analysis System, where all details of planning applications are stored, and which includes planning applications, permissions and completions), was used to illustrate the scale and nature of new residential development over recent years. Three other sources of data were used in this Chapter. Data from London Residential Research, part of the EGi group, were used to show the trend in average size of unit delivered; while Land Registry data on land values was compared to Cushman & Wakefield data on office values in order to illustrate the market pressure to convert offices to residential uses.

Chapter 4 describes property sales, Prime and non-Prime, mostly over the past decade. The market-wide base data used is Land Registry, showing mostly the number and value of sales from various perspectives. One of the major issues with Land Registry data, in the context of this report, is that it fails to pick up a large number of Prime transactions, often because they are sales to companies rather than individuals. To cover this shortfall in data, additional data was purchased from Lonres (an industry standard database supported by the main London estates agencies) that collects comprehensive data on prime sales. We acquired data for sales of >£2 million, covering the period from January 2003 to October 2013.

Chapter 4 also examines the profile of overseas buyers. In order to ensure that this was both robust and comprehensive, data from three property advisors – Carter Jonas, Hamptons and Savills – was collected and combined to produce average returns. More detailed data from Savills was used to amplify a number of key points. Finally in this Chapter, data from Christies International Real Estate were used to provide a perspective on the prime market in other cities around the world.

Chapter 5 sees a shift in focus from quantitative analysis to qualitative analysis. First, the Chapter looks at the affordability of Westminster's residential property, using Land Registry house price data, together with NOMIS data on earnings. Secondly, a variety of sources are used to provide quotes regarding the public debate around prime property, ranging from academic papers, various public and third sector bodies representing various interests and global city comparison databases.

Thirdly, discussions were held with representatives from local residents groups, landowners and independent market observers. By its nature, most of this feedback is anecdotal or impressionistic. It is nevertheless important in the context of the report, and is presented here because it provides a balance to the evidence base and explains some of the roots of the deep-seated concerns over the impact of prime property.

Chapter 6 contextualises Westminster's residential market by comparing its Stamp Duty Land Tax yield to other local authorities using HMRC data. It then presents a model of household expenditure in a sub-set of Prime houses (i.e. those above £5 million). The main data were derived from consultations with property owners and those involved in managing households on behalf of high net worth individuals.

Detailed discussions revealed key items of 'typical expenditure' allowing a model to be constructed. The key point of emphasis here is that the expenditure estimates have been deliberately *under*-estimated in order to ensure that figures quoted are a minimum estimate. Once the expenditure patterns were established, for homes in the £5-15 million and >£15 million price bands, these were then applied to the stock of relevant housing. All houses transacted during the period 2003 to 2013 were included, which resulted in 701 homes in the lower price band, and 90 homes in the higher price band. The homes were then multiplied by the expenditure patterns to produce gross annual expenditure for each price band.

Also in Chapter 6, the impact of Prime property on the behaviour of the wider property market uses data from the Land Registry and from property advisors Cluttons. The report also illustrates the spatial aspects of the Prime market. In order to do this, Lonres data on Prime property sales (referred to above) were mapped using GIS. Various other sources were used in this Chapter to provide third party commentary including Financial Times, London First, London School of Economic and Savills.

Consultation There were three main areas of consultation. First, we held discussions with a number of property advisory firms. Here we consulted both with their research teams and with agents who are directly involved in brokering transactions involving Prime property. The agents assisted in building up buyer profiles, including country of origin, motivations and intentions.

The second area of consultation was a series of interviews with local "stakeholders". These included local businesses, property owners and developers, academics and advisors to high net worth individuals.

The third strand of consultation was through two workshops, as follows.

The first workshop involved a cross section of local business interests, including developers, wealth managers and retail.

The second workshop involved Westminster residents' associations and amenity societies. Eighteen were invited to a roundtable discussion. Of these, eight attended, while a further six made written submissions.

Appendix Two: Acknowledgements

While the views and conclusions expressed in this report are those of the research team, through the course of the study we received very generous help from a large number of organisations and individuals. We thank them for their generosity.

Property advisors We received help from a number of property advisors. In particular we thank three Heads of Research: Yolande Barnes of Savills, Sue Foxley of Cluttons and Catherine Penman of Carter Jonas.

In addition we thank Adam Challis of JLL, Richard Cutt of Knight Frank; Fionnuala Earley of Hamptons, Jonathan Hewlett of Savills, and Peter Wetherell of Wetherells.

Owners and developers
Chris Brown, Igloo; Andrew Dunn and Alex Michelin, Finchatton; Andrew Wilson, Howard de Walden; Nigel Hughes, Grosvenor; John James, Soho; John Kevill, Lancer; Mark McKeown, Hyde Park Estate/Church Commissioners; Angus Michie and Matt Bell, Berkeley, and Hugh Seaborn, Cadogan Estates.

Business interests
Beverley Aspinall, London Luxury Quarter
Sarah Porter, Heart of London
Julius Malik, Symbiotic Security
Neil Anthony Richmond, Morpho Lifestyle Management
Mark Wiltshire, Mayfair-based Chartered Alternative Investment Analyst

Academia
Duncan Bowie and Peter Urwin, University of Westminster.
Rowland Atkinson, Roger Burrows, Luna Glucksberg and Richard Webber, York University and Goldsmiths College.

Resident Associations
Belgravia; Covent Garden; Fitzrovia; Hyde Park; Knightsbridge; Marylebone; Mayfair & St James's; North Paddington; Paddington Waterways and Maida Vale; Queens Park; SEBRA; St John's Wood; St Marylebone; Soho and Westminster.
Independent Mayfair residents: Belinda Dixon and Alistair Robertson.

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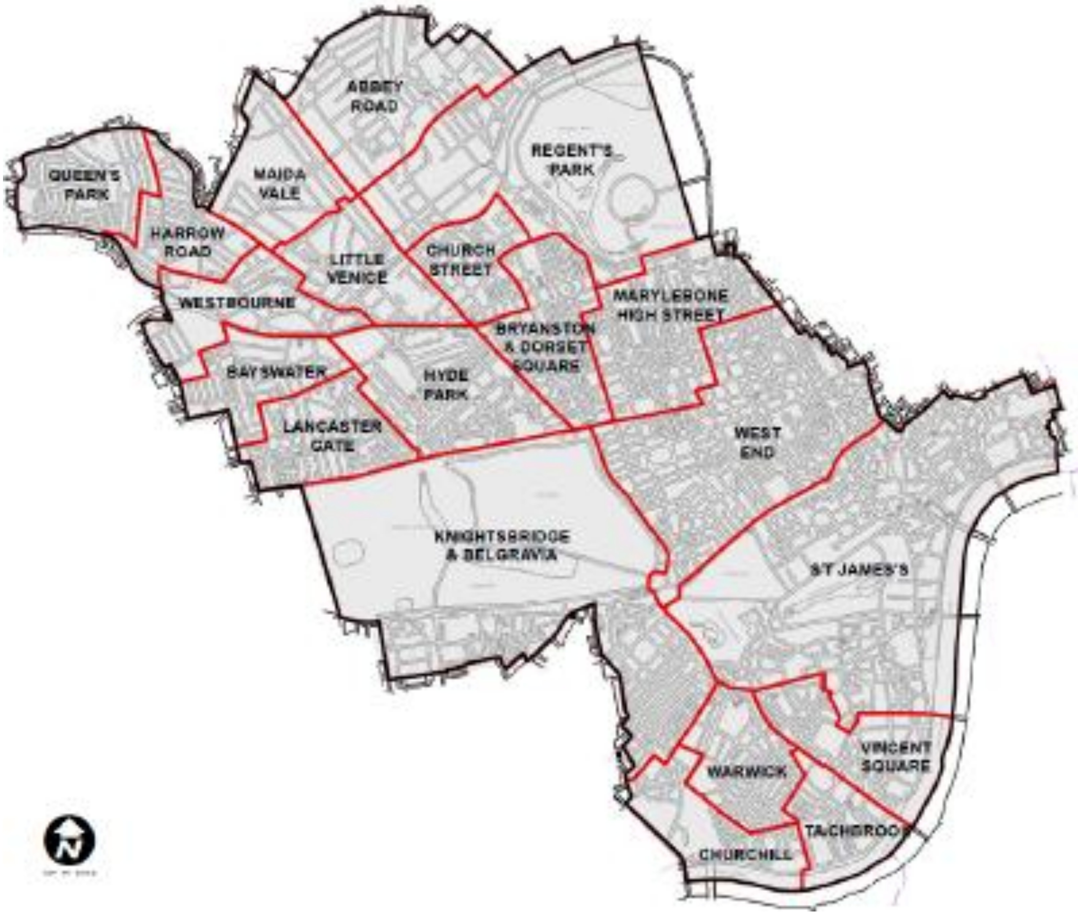
The Ramidus research team for this project comprised: Erik Brown, Ian Cundell, Rob Harris, Sandra Jones and Jake Sales.

Appendix Three: Map of Westminster wards



Source: City of Westminster (2011) LEA Baseline Study

Appendix Four: Glossary of terms

Affordable Housing Subsidised housing at below market prices or rents intended for those households who cannot afford housing at market rates. The accommodation is usually managed by a Registered Provider.

Social rented sector Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It might also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency. Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Intermediate housing Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Affordable Housing Fund All Section 106 payments in lieu of Affordable Housing (or on site residential floorspace in mixed use schemes where over 200 sq m of commercial floorspace is provided) are paid into the Affordable Housing Fund. The AHF plays an essential role in the provision of Affordable Housing in Westminster by bridging the funding gap between GLA funding for Affordable Housing and the actual RSL build costs of those units. Unlike the Housing Revenue Account (HRA) the AHF can only be spent in Westminster.

Capital Gains Tax A tax on the profit realised from the sale of properties that are not defined as primary residences.

Housing need Local planning authorities are required to have a clear understanding of housing needs in their area catering for housing demand and the scale of housing supply necessary to meet their objectively assessed needs (the scale and mix of housing and the range of tenures that the local population is likely to need over the plan period which meets household and population projections, taking account of migration and demographic change and addresses the need for all types of housing, including Affordable Housing and the needs of different groups in the community.

Forward selling The practice of selling properties “off plan”, or in advance of construction. This is practiced widely overseas, and has been responsible for kick-starting a number of schemes where funding might otherwise have not been available in recent years, following the credit crunch.

Institutional Private Rented Sector - private rented housing funded and owned by private institutions e.g. pension, insurance and life funds.

Occupancy rates -Proportion of the year that a property is occupied.

Overseas buyers Non-UK citizens who buy London residential properties. In this report three types of overseas buyer have been identified as of particular relevance to this work. (i) Global super wealthy, comprising a small number of people who buy homes >£5 million, often from the existing built stock. These buyers are likely to occupy their homes for only part of the year but they are likely to leave staff in occupation all year. (ii) London-based workers who live and work in London, contributing to community and economy in the same way as UK citizens. (iii) Investors who buy mainly new homes, of £500,000 to £2 million, as income-producing investments, much like UK investor buyers. While they typically have less attachment to place, their role in “off-plan” sales has enabled much of the development that has taken place in London since 2007, boosting the supply of private rented sector accommodation and Section 106 commitments from developers.

Planning gain Sometimes referred to as Planning Obligations or Developer Contributions, these are a package of measures promised by a developer which are secured by a legal agreement (Section 106) e.g. Affordable Housing or social and community infrastructure to support the new development.

Section 106 An agreement made under Section 106 of the Town and Country Planning Act 1990 to secure a planning obligation.

Prime property All residential property with a value of over £2 million is regarded as being ‘Prime’ but it is important to distinguish bands above this base level. Residential properties with a value of £5-£15 million are considered ‘Intermediate’ Prime and properties over £15 million are ‘Super Prime’. This is a working definition for London; beyond London Prime would probably being at a lower price threshold.

Core market/non-prime sales Residential properties with a value of <£2 million.