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MARKETS

Top end of housing market stays strong

By Greg Pitcher | Wed 22 February 2023



Despite interest-rate rises, demand for luxury homes shows no sign of abating.



Home front: The Old War Office in Whitehall is among the schemes meeting demand for high-end London homes

On a wet and windy day last November, the nine members of the Bank of England's Monetary Policy Committee met to discuss the grim forecast for the UK economy.

With inflation running at a near 40-year high, the committee voted to raise interest rates to 3%, sparking further fears among the property industry about the affordability of mortgages and other forms of borrowing.

Nine days later, a four-storey townhouse near Stamford Bridge football stadium in Chelsea sold for £16.7m, making it one of the most-expensive homes to be sold in the UK last year.



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The tills have kept ringing. Between 1 December and 31 January – a period in which interest rates rose further, and predictions for the housing market continued to worsen – agents closed 30 property deals in the capital worth £10m-plus. This was 43% more than in the same period a year earlier, according to market insight specialist LonRes.

“If you are wealthy, London offers a lot,” says LonRes managing director Anthony Payne, adding that the capital’s property market – especially at the top end – operates in a global context.

“Foreign buyers are less reliant on interest rates,” he explains. “The further you move out of central London, the more reliant people are on mortgage finance.”

Payne predicts that despite the prevailing economic conditions, and widespread forecasts of plummeting UK house prices, central London residential values will increase slightly this year because of its buyer profile.

However, luxury homes in other parts of the country could come under more pressure, he believes. “The market for 18th-century cottages in the country has seen tremendous growth, but that is a UK market and it is affected by interest rates,” says Payne. “The second-home market could also be affected by the cost of living – if all your bills are doubling, you might wait to see what happens before buying a second property.”

Strong market

Tom Bill, head of UK residential research at property agency Knight Frank, agrees that the luxury residential market at the heart of the capital is “very strong” as pandemic-related travel restrictions continue to be lifted.

“People are back on planes and there is a relative discount available, with house prices 15% below their peak as well as recent currency fluctuations,” he says. “Traditionally, more than half of buyers in the

prime central London market have been cash buyers, and many more would have been if interest rates hadn't been so low.”



8 Eaton Lane

Prime London calling: prices for flats in CIT Group's 8 Eaton Square development in Belgravia start at £3.75m

With the dollar continuing to perform strongly against sterling, wealthy overseas investors who don't need to borrow money will see 2023 as a good rather than bad time to buy property in the UK.

Despite a general sentiment of waiting for prices to become more attractive, many house-hunters at the top end won't necessarily be looking for a bargain in the same way, says Bill.

“Above a certain price point, people don't make decisions based on value – they want the right house for them,” he says. “It is an emotional decision. People don't drop down a bracket unless they have to.”

Bill's colleague Rupert des Forges, head of prime central London developments at Knight Frank, adds that wealthy individuals from across the world see high-quality London homes as “safe-haven” assets

amid global uncertainty.

Supply of such homes is also constrained, he adds, with land acquisition and planning hurdles slowing down development, alongside high construction costs.

‘Cautious optimism’

Charlie Walsh, head of sales at The OWO Residences – a conversion of the grade II-listed Old War Office in Whitehall, central London, into 85 top-end homes and a five-star hotel – echoes the analysts’ sentiments.

“We see this year as one of cautious optimism for the luxury residential market,” says Walsh. “As more borders open up, particularly from Asia, and travel really starts to resume post-pandemic, we expect to see a greater influx of international money coming into London.

“With any uncertainties in the market, buyers will traditionally migrate to best-in-class product, and astute buyers will be acutely aware of the lack of supply of super-prime stock versus the increasing demand.”

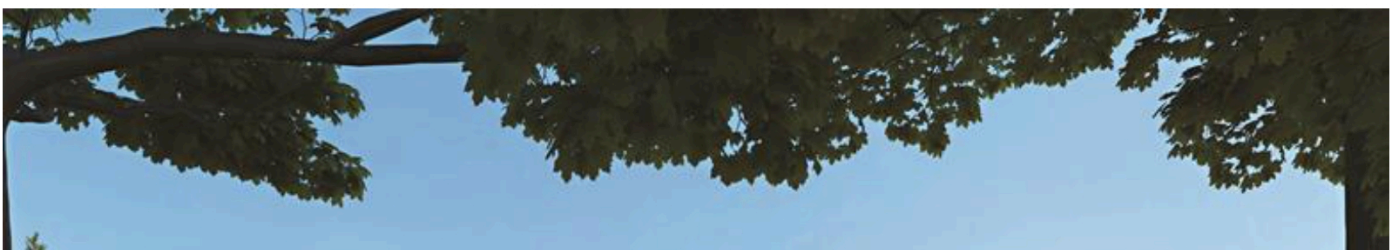
Helping to boost supply in the capital is private equity investor CIT Group. In January, sales opened on its 8 Eaton Lane scheme in Belgravia, a grade-II listed Victorian building that is being converted into 42 luxury flats, with prices from £3.75m.

Chris Richmond, head of residential at CIT, says the prime market is becoming “increasingly separated” from the general property picture. “Quality schemes are outperforming both the general London market and the prime central London market,” he adds.

However, it is not just the capital that could see a boom in top-end deals this year.

Paul Smith, founder of Redmayne Smith, says the agency is focusing its luxury residential investment strategy on other major cities, with some businesses moving their headquarters out of London and others allowing staff to work remotely from home.

Landmark Property Group focuses on a small but affluent patch of the North West for its own luxury developments.





Not so grim up north: Landmark Property Group builds luxury homes in the North West

Managing director Konrad Keller believes sweet spots exist for residential property deals this year, both geographically and in value terms.

“Different areas will be affected differently by the economy,” he says. “The south was overpriced and you can see prices coming down. We operate in south Manchester, which is a bubble with quite a bit of liquidity.”

While first-time buyers are likely to be affected by rising mortgage costs and cost-of-living concerns, the wealthy might be in a position to negotiate over prices because of a relative lack of competition and urgency, says Keller.

It is between these camps that he sees his target. “There is still a lot of demand for properties in the £500,000 to £2m range,” he says. “This band captures both upsizers and downsizers, both of which have liquidity and a desire to move.”

“In Manchester – and I’m sure it’s reflected in Birmingham, Liverpool and other cities – there are areas with high-net-worth individuals who don’t feel the pinch as much as others. We sell to doctors, solicitors, generally families with children at home.”

Again, Keller points to the imbalance between supply and demand of luxury homes.

“Our quantity surveyors tell us contractors are ringing them looking for work,” he says. “It can only mean

one thing: developers are sitting on their sites.”

This is especially true at the top end of the market, Keller suggests, because there are more specialist developers involved that may be more exposed to risk than the volume housebuilders when buying land for a new project.

“We have had one scheme in planning for two years,” he says. “We could have built that by now but we have instead succumbed to the market as it is now.”

That means not only potentially selling homes at lower prices but certainly paying more to build them.

“We are acutely aware of costs,” says Keller. “We’ve been in an inflationary construction market over the past 18 months and it has been very difficult to ascertain what build costs will be at the end of a project.”

‘Squeeze on margins’

Landmark has taken to forward-buying as many materials as it can to lock in prices but Keller admits there has been “a squeeze on margins” and the firm is bringing projects forward “with less urgency”.

He adds: “Planning is a huge issue for us. It is a slow and heavy machine. We have had quite a few sites that look decent but you think it will be such a laborious procedure that it isn’t worth the fight.”

Some 250 miles south of Manchester, Stephens + Stephens is building its 74-apartment One Pentire scheme close to Fistral Beach in Newquay, Cornwall.

Helen Stephens, creative director at the developer, says the top-end, one-bed seaside homes have received “good interest” ahead of their completion this summer.

Two-thirds of units sold by Stephens + Stephens in the past two years have been turned into holiday lets. With a number of other sites in planning, and little let-up in the pandemic-fuelled Cornish boom, Stephens anticipates a “big, exciting and busy year”.

She adds: “We are continuing to look for sites in coastal towns to ideally develop apartments by the sea,” she says. “We also have an interest in locations in the countryside and are looking to invest in smaller housing developments where we can create a private, gated community.”

The developer has made “fundamental changes” to its business processes to become “more efficient” in light of “massive increases” in fuel, energy, labour and material costs. But it is sticking with its core strategy this year.

“We always aim to develop luxury spaces that suit 21st-century living,” says Stephens. “We have a value-for-money approach we think will be important over the next 12 months. But new-builds, both one-offs and small estates, will continue to grow in popularity in 2023.”

Broadway star for Northacre



The Broadway

Developer Northacre sold a penthouse within its redevelopment of the former New Scotland Yard site in central London for £19m at the end of last year.

The firm's The Broadway, designed by Squire & Partners, include 258 homes from one to five bedrooms and resident facilities such as a gym, spa and games room.

Simon Edwardson, head of sales at Northacre, says interest in top-level residences in central London is “showing no signs of waning”.

“We have seen a vast cross-section of purchasers and demographics resulting in £50m in sales in November, from one-bedroom apartments to penthouses,” he says. “This momentum looks set to continue well into this year.”

A paucity of competition at this level keeps interest high in properties that can offer a combination of views, space, location and specification, Edwardson adds.

“Domestic and international buyers alike want to own an exceptional piece of the fabric of London,” he says.

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