

Residential update

Mayfair & St James's

UK Residential Research | April 2018

Mayfair & St James's are areas undergoing a transformational change. In recent decades one of the most expensive locations in the world has evolved into a largely commercial, retail and hotel destination. Surrounded by parks, adorned with iconic and historic buildings and home to London's luxury retail, Mayfair & St James's have undergone several eras of change. The present transformation is an incremental one back towards its more historic residential roots. The escalating demand for high-end and prestigious homes is the catalyst for change. Most significantly, given the scale and nature of developments, we expect Grosvenor Square to shortly become the most desirable residential address in the world.



Neil Chegwidden
Residential Research

Fame and fortune

Mayfair & St James's are two of the most expensive districts in the world.

They boast not only some of the most expensive residential addresses in London and indeed across the globe, they are also home to Britain's most upmarket shopping streets, the most prestigious office buildings and the most luxurious hotel chains such as The Ritz and The Dorchester.

These areas are also home to St James's Palace and the most expensive properties on the Monopoly board – Mayfair and Park Lane.

Converting to residential

Both Mayfair & St James's are currently in the throes of a transition from commercial back towards more residential use.

Strong demand for high-end residential property, most particularly large lateral apartments outside of Knightsbridge, is a catalyst for change.

The conversions of the US Navy headquarters and the Canadian High Commission, both on Grosvenor Square, back into residential use, are prime examples of the metamorphosis underway. Indeed, once the current list of developments are complete, Grosvenor Square could well become the most desirable residential address in the world.

Historic roots

The present transition is reversing, to some degree at least, the trend during the early 20th century when many parts of Mayfair & St James's changed from residential to commercial use. The trend continued after World War II, when numerous houses were converted into offices and international embassies.

The composition of Mayfair & St James's has altered numerous times over the years but it has enjoyed a prestigious status for many centuries. St James's Palace, for example, was commissioned by Henry VIII in the 1530s.

The origins of the modern day Mayfair date back to the mid-17th century when the Grosvenor family acquired 100 acres of land through marriage. After this, the Grosvenor family developed various properties based around the creation of Grosvenor, Berkeley and Hanover Squares.

Today, most of Mayfair is still under the stewardship of the Grosvenor organisation with the original squares still prominent focal points, as is highlighted by the current activity and high pricing in Grosvenor Square.

The origins of St James's are slightly different with the name deriving from a leper hospital which was located on the site

of St James's Palace. The area's present day configuration began in the mid-17th century when Charles II granted permission to Henry Jermyn to develop the area centred on St James's Square.

The locale was initially adorned with aristocratic housing but became popular as a private members club location in the mid-19th century. More recently it has become synonymous with the hedge fund industry where office rents are the highest in London and amongst the highest in the world.

Residential outlook

The slow-burn transformation of Mayfair & St James's will continue in incremental stages. And given the demand and desire for high-end residential property in Central London, and especially in the centrally-located and high-profile Mayfair & St James's, we anticipate further development proposals will come forward to extend the residential transition beyond the current wave of activity.

So, expect further gentrification in Mayfair & St James's and an increasing focus on residential over the next 5 to 10 years, as well as new record pricing.

Sales & lettings markets

High-end pricing

The residential market in Mayfair & St James's is small relative to its area, which is due to the abundance of retail, office, embassy and hotel property.

Sales prices, however, are amongst the highest in London. Pricing can often exceed £5,000 psf for best in class properties and approach £6,000 psf on rare occasions.

Furthermore, some of the prestigious and well-located new developments coming on stream over the next few years look set to challenge the £6,000 psf high watermark.

Sales market

Despite the high values that only HNWI's can afford to purchase, there is always a healthy stream of demand in Mayfair & St James's, especially for new developments.

However, the residential sales market here has not been immune from the external influences which have affected all Prime Central London locations over the past three years. The change was triggered by the first of two stamp duty reforms in December 2014 with the second coming into force from April 2016.

The impact of these, together with the EU referendum effect, has meant a decline in prices. On average, pricing in Mayfair & St James's has slipped from £3,550 psf at the end of 2014 to £3,350 psf by Q1 2018.

Importantly, however, prices have stabilised during the year to Q1 2018. We expect the next movement in prices to be up.

New build setting precedents

Often, price lists and achieved pricing psf are not publicly available on new developments in high value areas such as Mayfair & St James's with many schemes marketed privately on a POA basis.

However, over £5,000 psf is thought to have been achieved at some of the apartments in British Land's Clarges development on Piccadilly, which has views over Green Park and Buckingham Palace.

Pricing is also unavailable at Clivedale's Mayfair Park Residences on Stanhope Gate but we believe blended values are in excess of £5,500 psf with circa £5,000 psf being achieved on its Hanover Square development, Hanover Bond.

We also understand that all 42 of the units at Native Land's Burlington Gate scheme on Old Burlington Street have now sold with average pricing at around £4,000 psf reflecting the urban rather than park or square aspect.

Typical one bedroom apartments in Mayfair & St James's range from £900,000 to £1.15m while two bedroom flats usually command between £1.75m and £2.0m.

Lettings market

With a large proportion of the housing stock in Mayfair & St James's inhabited by HNWI owner-occupiers, the lettings market is relatively small.

Demand is typically from one of three main sources. The first is medium-term renters who expect to be in London for five or more years but who would prefer not to buy. The second is someone looking for a pied-à-terre who would also prefer not to buy. The third is a shorter-term renter who anticipates being in London for just 1-2 years.

The first and second of these types have become an increasing proportion of all tenants with the hike in stamp duty for purchasers diverting some demand to the rental market.

The broad factors which have affected the lettings market across Prime Central London have also impacted Mayfair & St James's. This is principally an excess of properties on the market relative to demand which has been caused by fewer people selling their homes and opting to rent out their properties instead. It also reflects a slowing in demand, mainly from overseas and partly due to the Brexit uncertainty.

This dynamic has led to a slight fall in rents over the past three years. The average rent for a typical one bedroom apartment has slipped from £615 pw in Q1 2013 to £575 pw by Q1 2018.

Importantly, we believe that the lettings market has become more evenly balanced over the past year with no further rental declines expected.

A typical one bedroom apartment in Mayfair & St James's rents for between £500 pw and £750 pw while a two bedroom flat ranges from £800 pw to £1,300 pw.



Mayfair Park Residences

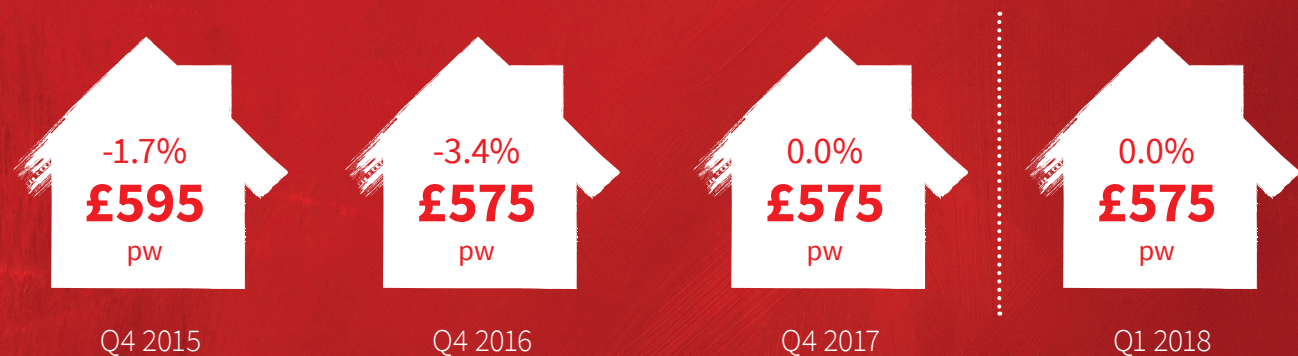
Mayfair & St James's average new build pricing and price growth

Average % change pa, average £psf

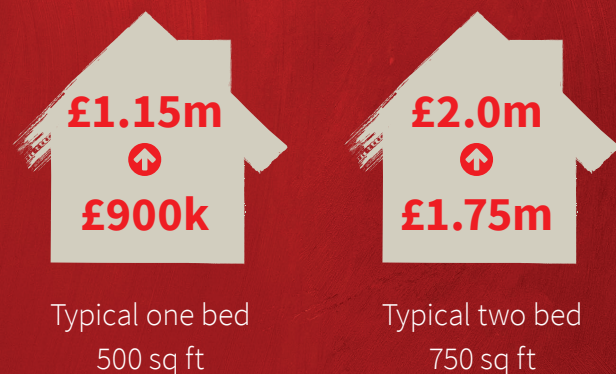


Mayfair & St James's average new build rents and rental growth

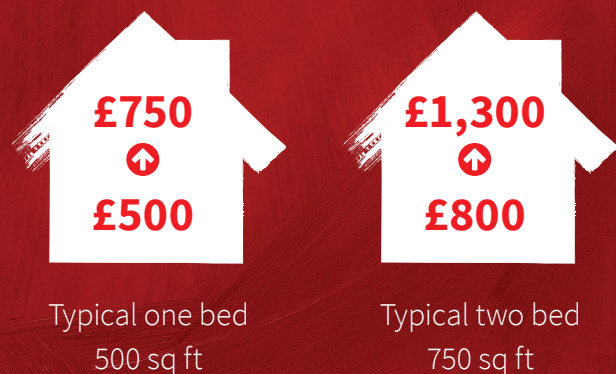
Average % change pa, average £ per week, one bedroom flat



Mayfair & St James's sales prices Q1 2018



Mayfair & St James's rents Q1 2018 (per week)



Mayfair & St James's

Development market

Upscaling

The composition of existing property, the high price point and competing uses mean that there are rarely residential development opportunities of more than 50 units in Mayfair & St James's. Height restrictions also present a development obstacle here.

As a result there have been very few large residential developments in the recent past but there has been an abundance of small schemes, typically providing 5-10 units.

Despite this recent trend, Mayfair & St James's now has an exciting and high profile development pipeline.

Rejuvenating Grosvenor Square

Grosvenor Square in particular is undergoing a radical transformation. Once home to numerous embassies, Grosvenor Square is fast reclaiming its label as Mayfair's premier residential location for UHNWIs.

Finchatton is currently redeveloping 20 Grosvenor Square on the north-west corner of the Square while Lodha is on site at MacDonald House, the ex-Canadian High Commission building on the south-east corner. These schemes are 36 and 48 private units respectively.

The largest development opportunity on Grosvenor Square is the US Embassy which occupies the whole of the western side of the Square. At one stage this might have been at least partly residential following the move of embassy staff to Nine Elms, but Chelsfield and Qatari Diar now plan a hotel and retail scheme.

Prestige developments

There are five developments of 25 or more private units under construction in Mayfair & St James's (see map and table).

As well as the two Grosvenor Square schemes, Clivedale London has two developments underway. These are the 26 unit Mayfair Park Residences scheme and the 80 unit Hanover Bond development. The latter is a redevelopment of the former JLL headquarters building at 22 Hanover Square which will include a 50 suite Mandarin Oriental hotel.

The other scheme underway is Brockton Capital's 32 unit 60 Curzon Street development.

Exciting pipeline

Only six residential units are planned at the redevelopment of the north-west corner of Hanover Square above the Bond Street Crossrail station, but many more units could be developed at the western entrance to the Crossrail station at 65 Davies Street, although no plans or developer is yet in place.

All in all there are six schemes amounting to 207 private units in the planning pipeline in Mayfair & St James's to add to the 222 units currently under construction.

Importantly, this represents a substantial addition of new residential stock to this perennially undersupplied market and is an integral part of the incremental transition towards more residential.

Hanover Bond

"Mayfair & St James's are established and renowned global residential markets. But a lack of development, and especially large-scale development, over the past decade has starved potential purchasers of choice and opportunity.

Excitingly, this is now changing and changing fast.

More importantly, Mayfair & St James's are set to wrestle back the accolade as London's premier residential address from Knightsbridge.

The volume of development, the prime locations and the exemplary specification of the schemes to be delivered will trigger this change.

A new era for Mayfair & St James's is well and truly underway."

Peter Preedy
Development Consultancy



Mayfair & St James's

Development market

Mayfair & St James's developments under construction

Number of private units



Mayfair & St James's development pipeline

Number of private units



Map ref	Scheme	Developer	Private units	Status
1	Burlington Gate	Native Land	42	Complete, all sold
2	Clarges Mayfair	British Land	34	Complete, for sale
3	Hanover Bond	Clivedale London	80	Under construction, for sale
4	No1 Grosvenor Square	Lodha	48	Under construction, for sale
5	20 Grosvenor Square	Finchatton	36	Under construction, for sale
6	Mayfair Park Residences	Clivedale London	26	Under construction, for sale
7	60 Curzon Street	Brockton Capital	32	Under construction, not launched
8	One Berkeley Street	Crosstree Real Estate Partners	52	Permission, not launched
9	96-100 Piccadilly	Motcomb Estates	36	Permission, not launched
10	Nightingale House	Aerion Fund Management	32	Permission, not launched
11	Audley Square House	Caudwell Properties	30	Permission, not launched
12	Carrington Street Car Park	Motcomb Estates	29	Permission, not launched
13	London Hilton	London & Regional Properties	28	Permission, not launched
14	65 Davies Street	TfL		Pre-planning

Source: JLL, Molior. Data correct as at April 2018.

Outlook

The prospects for the Mayfair & St James's residential market are very exciting.

For several years this expensive but prominent enclave of London has been dormant in terms of new residential development. The second-hand market has ticked over, but with little to inject enthusiasm into a market already weighed down by higher stamp duty rates and Brexit, the change that is now underway is very much welcomed.

For the first time in years there are now several larger developments under

construction as well as a full pipeline of other large-scale schemes

But more importantly, the developments underway and for sale are exactly the type the area needs. Large lateral flats in prestigious, high-end and high-priced schemes, located in prime spots around Mayfair are breathing new life into the residential market here.

Furthermore, the current crop of developments will raise the bar and the profile of Mayfair & St James's and push

this traditional neighbourhood firmly into the 21st century. They will also accelerate the pace of change towards more residential use and help promote Mayfair & St James's as a direct competitor to Knightsbridge as 'the' prime residential neighbourhood of London and the world.

So, expect the Mayfair & St James's residential market to hit the headlines over the next few years with some prestigious new schemes as well as some record pricing.

House price growth forecasts (% pa)	2018	2019	2020	2021	2022	2018-2022
Mayfair & St James's	0	0	1½	3	4	9
Central London Developments	0	½	2	3	4	10
Greater London	0	1½	2	3½	4	11

Rental growth forecasts (% pa)	2018	2019	2020	2021	2022	2018-2022
Mayfair & St James's	0	0	1½	2	2½	6
Central London Developments	0	1½	2	2½	2½	9
Greater London	1½	2	2	2½	2½	11

Source: JLL

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