South Kensington property hit by fall in foreign interest

The Albert Memorial sits in front of the Royal Albert Hall in Kensington Gardens, London © Alamy

On a brisk Thursday in March, academics from Imperial College in South Kensington took to the streets to protest against cuts to their pensions. The lecturers, professors and tutors stand to lose serious money: up to £10,000 a year — enough to buy an entire five square feet in some of the neighbouring buildings.

South Kensington has long been one of the capital's most affluent areas. Lavished with money and royal patronage during the Victorian era — the area's northern stretch was named "Albertopolis" after the monarch's husband — SW7 has since been taken up as the favoured postcode of affluent European families in more recent years.

A gilded history it may have, but one that has failed to insulate South Kensington from the issues afflicting London's prime markets. Now agents report that even French buyers, who have reliably sought homes close to South Kensington's prestigious Lycée — so reliably, in fact, that South Kensington is sometimes called Paris's 21st arrondissement — are looking elsewhere.

"We are not seeing the flow of European money coming into London that we used to. South Kensington is an area which has been dominated by French and Italian buyers," says Charlie Bubear, a director in Savills' residential department. "Those taps were slightly switched off in 2014."

South Kensington map

The flow was further stemmed by the UK's decision to leave the EU in 2016. Since then, the election of Emmanuel Macron — a president less committed to high taxes than his predecessor — has given French buyers yet another reason to bypass South Kensington. There's even a name for it: Brexodus.

International buyers have gone from 75 per cent of Savills' buyers to less than half, estimates Bubear. As well as political uncertainty, agents blame a poor investment outlook for the tailing off of buyers. Local values have come down 16.8 per cent since their 2014 peak, and the market is not expected to make a rampaging return anytime soon. "We think the market is going to be static for a year or so," says Bubear.

The Natural History Museum in South Kensington © Nicola Ferrari/Alamy

The top floor apartment of Empire House, on the Old Brompton Road, sits at the boundary of Knightsbridge. The £6.95m penthouse looks out on to the Brompton Oratory, the Victoria and Albert Museum and the striped facade of the Natural History Museum. It has attracted a number of viewings, according to Richard Barber, director at the estate agency JLL, but is yet to sell.

Values are not forecast to increase for some time. “If you’re an end user, you have to be prepared to live there for 10 years,” says Tim des Forges, a director at JLL. Perhaps for that reason, buyers are exercising greater discretion before making a purchase. Figures from Knight Frank’s local office show that viewings in South Kensington were up 36 per cent in 2017 compared with 2016. The increased traffic only boosted sales transactions by 2 per cent, however, according to data from LonRes.

Al fresco dining in South Kensington © Alamy

Elegant houses in a mews with cobble-stone street in South Kensington © Nicola Ferrari/Alamy

The untrammelled price growth of 2009-2014 feels a long way off, and buyers and sellers alike are hesitant to transact while growth is not on the horizon. After three years of decline or stasis in the market, however, they are becoming more pragmatic, and transactions are making a recovery — albeit a pallid one. Last year's 2 per cent increase doesn't look like much, but it arrested a dramatic slide that had seen transaction volumes fall 47 per cent between 2013 and 2016.

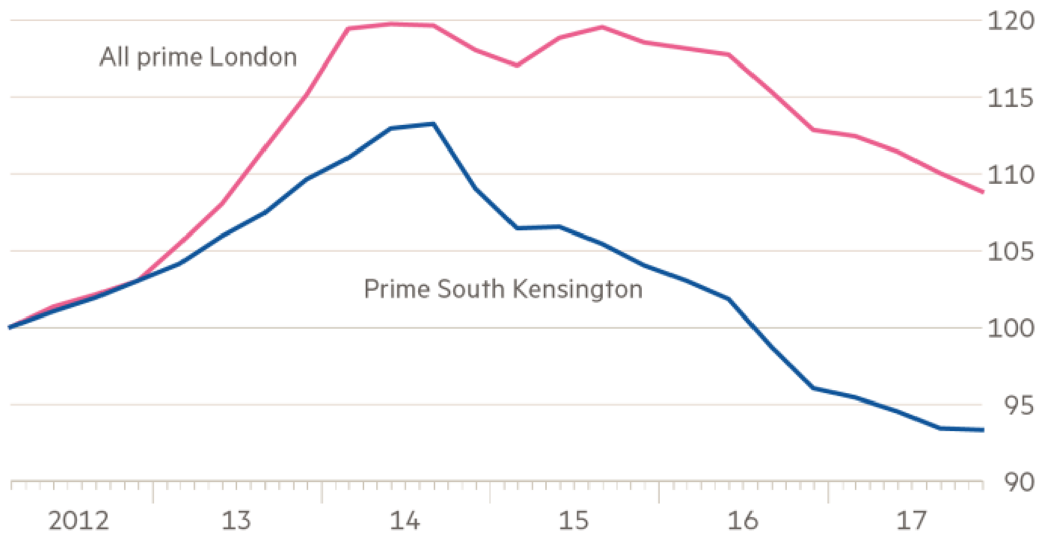
South Kensington Station © Peter Scholey/Alamy

"Buyers need to move," says Jo Eccles, MD at SP Property Group. "Some are bursting at the seams, others have just been renting and renting. Who knows if we're at the bottom, but the depressed market state is likely to go on for years."

The increase in transaction activity has no doubt been helped by the fact that sellers have soaked up much of the cost of stamp duty changes introduced in 2014. "Many sellers are older couples, who recognise they've seen a lot of capital growth, and are quite pragmatic about the sale," says Eccles.

House prices in South Kensington

Indices rebased

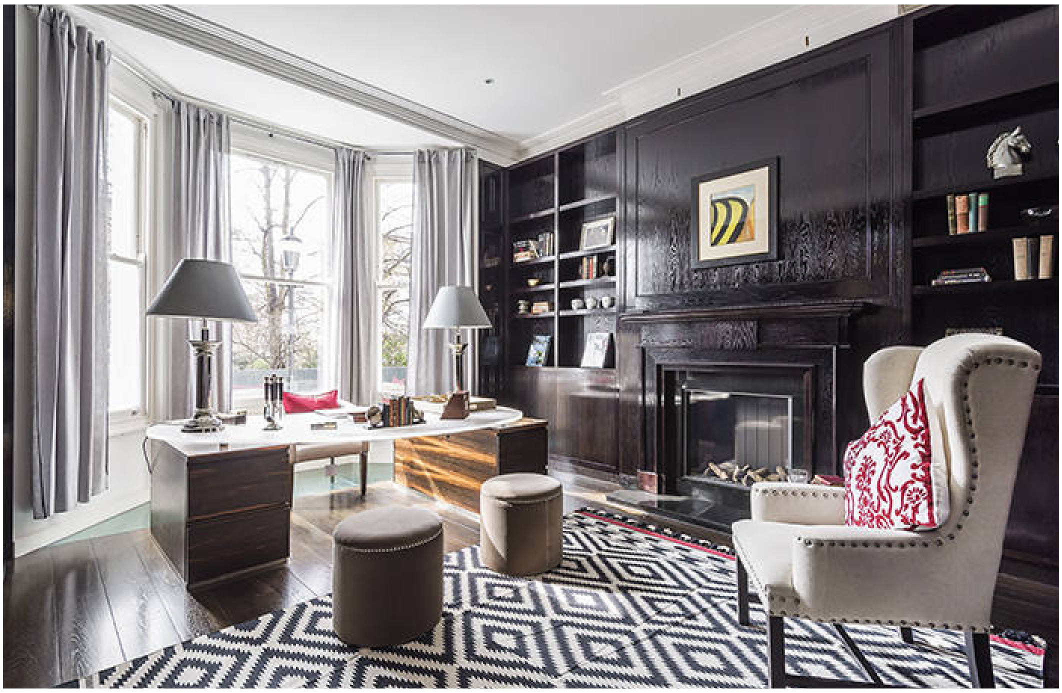


Source: Savills Prime London Index

With the market where it is, they can’t afford not to be. A three-bedroom flat on Queen’s Gate, a stone’s throw from the museums, has had its asking price reduced six times since first being listed in October 2016. It’s currently on the market with Foxtons for £3.5m, down from an original listing of £5.3m.


Six-bedroom house, Hereford Square, £7.95m

That’s not to say that the reductions have made South Kensington cheap. A six-bedroom home on Hereford Square, with the area’s characteristic white stucco frontage, is on the market for £7.95m with Russell Simpson. On Harley Gardens, towards Chelsea, Hamptons International is selling a six-bedroom house for £16.25m.



Six-bedroom terraced house, Harley Gardens, £16.25m

Realism may be sinking in, in South Kensington, and so too may be boredom. Last year vendors waited an average of 193 days between launching their properties to market and exchanging contracts. Many vendors feel that "they've waited long enough", says Giles Barrett, head of Knight Frank's South Kensington office. With transactions still way down on where they were five years ago, some may have to wait a little while longer yet.

Buying guide

- For the 2018-19 period, homes in the top tax band in Kensington and Chelsea will incur a total council tax bill of £2,246.14
- The Natural History Museum's diplodocus model — known as "Dippy" — is currently in the Dorset County Museum, on the first leg of a two year-long tour
- The illustrator Sir Quentin Blake taught English at the Lycée Français Charles de Gaulle in the 1960s and the school's alumni include Dominic Grieve, the Conservative MP
- Stamp duty reforms in 2014 and 2016 first raised the tax bill on all homes priced over £937,500, and then added a 3 per cent premium on all second homes

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£1m A two-bedroom flat just off Gloucester Road

£3.5m A five-bedroom mews house on Stanhope Gardens

£18m A five-bedroom townhouse set back from Hyde Park

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Worries over migrant slowdown grow as March deadline looms

The effects of the so-called "Brexodus" go well beyond a slowdown in business for the French patisseries of South Kensington, **says Fergus Peace**. Typically about 30 per cent of European immigrants settle in London, according to the Office for National Statistics.

Neal Hudson, director at Residential Analysts, says those migrants are crucial because domestic migration sees a net outflow of people from London to the rest of the UK. "London's growth really comes from international migration," he says. "Clearly any fall is going to have an impact."

A pronounced fall is well under way: ONS figures show net migration from the EU is now 90,000 per year, less than half what it was in the twelve months to June 2016. That fall in demand is starting to affect a central London market where prices and transaction numbers have already been falling for the past two years. "Agents, perhaps optimistically, were thinking the market was settling," Hudson says. "Now we're layering Brexit on top."

Plenty of Europeans are still coming, but are becoming more hesitant about buying their homes, according to Henry Pryor, a buying agent. "There's this nervousness around what the landscape will be in five years," he says.

A new wait-and-see mentality is increasing interest in high-end rentals. "It's not that we really think the world as we know it is going to end," Pryor says. "But it's not a sellers' market like it was 18 months ago, so buyers feel they can afford to be cautious."

London's cosmopolitan appeal has not vanished overnight. "The enthusiasm is still there," Pryor says, "but the commitment is not." The effects of falling migration and rising uncertainty may become particularly acute as March 2019 draws closer. "The more realistic agents," Hudson suggests, "will be looking at this quite nervously."

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