



Credits: Ilya Grigorik

London properties shine amid Brexit uncertainty

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After the Brexit referendum, banks and companies have shifted their operations to other countries in Europe. The UK government, unable to come to a consensus on a Brexit deal, has seen the resignation of Prime Minister Theresa May. Amidst the pessimism surrounding Brexit, the London property market seems to be a bright spot.

London has the highest number of ultra-high net worth individuals, and it is also the place where the rich choose to park their wealth. Ranked the top global wealth centre in Knight Frank's 2019 Wealth Report, London is also the number 2 destination for major property investments in the world.

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[+65 62222321](tel:+6562222321) / marketing@quillionrealestate.com

According to Savills, commercial property investment in Central London increased 28% on an annual basis in Q1 2019 to reach £3.2 billion, a figure higher than before the Brexit referendum. Citigroup acquired its EMEA headquarters in Canary Wharf this April, while global companies including Facebook and Sony leased a total of 517,000 sqft in Q1 2019.

Looking at the residential property market, the number of homes sold at or above £20 million in 2018 is also at a level higher than before the Brexit referendum. Savills expects house prices to grow after Brexit - prices of prime properties in Central London are forecasted to increase by 6% in 2021.

Currently, prices of prime properties in Central London are 20% from the peak in 2014-2015. After taking into account the Pound's weakness, the discounts are even more significant. Prices in terms of the US dollar are 40% from the peak. The Pound is now trading at its lowest levels in three decades. Despite the failure of Brexit deals and the resignation of Theresa May, the value of the Pound has been fluctuating within a tight 5% band over the past year.

The relative stability of the Pound might be the reason why investors are going into the London property market now. The proportion of houses in London's prime districts sold to Americans this year is double the figure in 2018, and is the highest in almost a decade. In addition, Americans are buying high value properties in the prime district. The average amount they spent on a single property stood at £7.3 million,

almost 50% more than the average for the past decade. In a sign of renewed demand, Centre Point, a luxury development in Central London has resumed sales. The development suspended sales last year as buyers were giving unrealistic offers.

London, the premier lifestyle destination in the world, hosts the world's top universities, museums and events. The London lifestyle has attracted people from around the world. Chinese parents are snapping up apartments near prestigious educational institutions. London's population is expected to grow at 8.8%, a pace faster than any other region in the UK. The population is forecasted to reach 9.54 million in 2026, and almost half of them will likely stay in rented apartments. Savills predicts a 15.9% 5-year compound growth rate for rents in London.

The Brexit referendum has moderated property prices in London and weakened the Pound. Amidst the uncertainty, investors are now taking a fresh look at the London property market given London's unrivalled position as a lifestyle destination, strong rental market, attractive mortgage rates and unrestricted foreign ownership of freehold properties.

Sources: Savills News, Knight Frank The Wealth Report 2019, Bloomberg, Savills Market in Minutes: Prime London Residential, The Business Times, The Guardian