FAIRWAY

CAPITAL

Prime Central London
Residential

MARKET COMMENTARY

Q1-25

31.03.25

OVERVIEW: Whilst the PCL market continues to shake off some lingering post-budget hesitancy, the first quarter of 2025 did open with renewed confidence, supported by a convergence of positive market forces: stabilizing inflation, expectations of interest rate cuts, a softening in UK tax policy, and a strong influx of international capital. Although down from 2022-23 levels, transaction volumes above £5m remained steady, led by several high-profile deals, reaffirming confidence in the capital.

GLOBAL ECONOMIC CONTEXT: The global economy is forecast to grow by 3.3% this year, reflecting stability despite geopolitical tensions and slower expansion in China *(IMF, Jan-25).* Inflation is cooling across major developed economies, allowing central banks to pivot toward more accommodative stances. While Trump's protectionist U.S. trade policies sent markets into a frenzied panic and elections in key markets create pockets of uncertainty, it has also prompted global investors to allocate more capital toward safe-haven jurisdictions. London, and its prime central residential market above £5m, continues to benefit from this global repositioning as it remains a transparent, well-regulated market with a strong legal foundation and enduring global brand.

UK ECONOMIC & POLITICAL LANDSCAPE: The UK economy is showing signs of resilience despite muted headline growth. The OBR slashed GDP growth forecasts in half to 1% for 2025, driven by global trade tensions, rising energy prices, and a decline in business activity. However, a rebound is expected in subsequent years assuming monetary policy eases, allowing inflation to return to the Bank of England's 2% target by 2026 *(OBR, Mar-25).* Although short-term cost pressures remain, especially from utilities and taxation, falling inflation since late 2024 is encouraging for households and investors alike *(The Times, Mar-25).* Politically, the UK government has taken a pragmatic turn. In response to wealth migration concerns, officials have softened proposed non-dom reforms, striking a balance between revenue generation and investor retention (Financial Times, Feb-25). Chancellor Rachel Reeves' £14bn fiscal package, while fiscally conservative, has reassured markets and preserved confidence among global wealth managers.

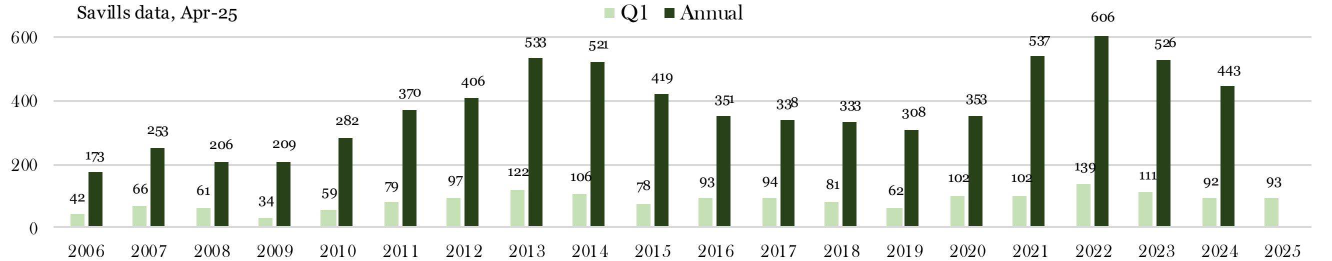
INTEREST RATES & CURRENCY: The BoE cut rates again in February by 25bps to 4.5%, now down 75bps from peak rates in Jul-24. Market consensus suggests the Bank of England may cut rates again in Q3, with the base rate expected to end 2025 around 4.25% (DailyForex, Jan-25). This outlook is already easing borrowing conditions and boosting buyer sentiment. Sterling's ongoing softness provides a significant tailwind for overseas buyers. Compared with the 2014 peak, dollar-denominated purchasers can achieve effective discounts of up to 40% on PCL property when accounting for price movements and FX (Savills, Mar-25). As a result, interest from the U.S., Middle East, and parts of Asia has accelerated, making currency arbitrage one of the strongest catalysts for renewed demand.

DEMAND: There does remain a cautionary sentiment across the prime central London market in Q1 as buyers continue to digest a year of political flux in 2024. This is likely to linger over 2025 creating a two-tiered market where best-in-class product continues to perform yet anything requiring work see's relative discounts. There has been a marked uptick in interest from American buyers, whose UK citizenship applications hit record highs in 2024, motivated by both global diversification and domestic political hedging *(The Telegraph, Mar-25).* Institutional and sovereign buyers also demonstrated strong conviction with Norway's oil fund making a £306mn investment in Mayfair, while a U.S. tech billionaire's £138.9mn acquisition of The Holme reaffirmed the city's enduring appeal to the ultra-wealthy *(The Evening Standard, Jan-25).* These deals signal a market that remains firmly on the radar of global capital.

SUPPLY: As ever, supply for best-in-class homes remained tight in Q1. While some distressed or long-held assets (e.g., The Holme) have returned to market, the very best homes still transact off-market, limiting available stock. This constrained supply, particularly in the £5m+ bracket, has enhanced competition for best-in-class properties, which still achieve premiums. The pipeline of future supply also remains incredibly thin in central London, 70% lower than 10 years ago as planning reforms, build cost inflation and higher borrowing costs have all affected viability *(Knight Frank Residential Development Update, Jun-24).* In Q1 2025, there were just 150 units commencing construction in Westminster and zero in RBKC *(Knight Frank, Apr-25).*

TRANSACTIONS: Activity in Q1 remained quieter compared to previous years, as buyers pause for thought on the various tax changes introduced by the new Labour Government and global economic uncertainty caused by Trumps trade tariffs. There were 93 sales recorded in the first 3 months of the year, representing a 33% drop from the 139 in Q1 2022. However, activity levels remain on par with Q1 last year and typically, the £5m–£15m segment remained the most active, accounting for 86% of all transactions (80).
Notably, four transactions exceeded the £30 million threshold in Q1, including a £50 million sale at One Hyde Park, and £34m house off-market Belgravia house. This evidences continued depth of demand for ultra-prime assets — particularly where quality, scale, and location converge. Buyers in this segment remain conviction-led, often moving decisively for assets that are either irreplaceable or deliverable in a low-supply environment. (Savills, Mar-25),

Figure. 1: Q1-25 Sales > £5 million in London from 2006 - 2025



PRICES: Fiscal and political changes have kept price growth muted across PCL, as buyers remain sensitive. Savills indicate price growth of -0.7% on the quarter and -2.6% in the 12 months to Mar-25. Across prime central London, Savills suggest prices are down -21.2% since their peak in 2014, representing significant value by historical standards *(Savills research, Ap-25).* However, there remains a distinct bifurcation in pricing across the market: fully refurbished, turnkey properties are still commanding strong premiums due to their complete lack of supply, while assets requiring significant capex are seeing longer marketing periods and greater price sensitivity. Although our value-add strategy is not reliant on capital growth, the main agents are forecasting a 2.88% CAGR over the next 5 years. Figure 2 below shows a breakdown of their expectations on an annual basis.

Figure. 2: Main agents 5-year PCL Residential Forecasts

	2025	2026	2027	2028	2029	5-Year CAGR %	5-Year Growth %
Savills	-4.00%	1.00%	3.50%	5.00%	4.00%	1.85%	9.59%
Knight Frank	2.00%	3.50%	4.50%	5.00%	5.00%	3.99%	21.63%
Strutt & Parker	2.50%	2.50%	2.50%	2.50%		2.00%	10.38%
JLL	3.50%	5.00%	5.50%	4.50%		3.68%	19.81%
						2.88%	**15.35%**

Savills 'Prime London Houses Prices Q4-24 (Jan-25), Knight Frank PCL Hosue Price Forecasts (Nov-24), S&P 'PCL Price Forecast' - Medium Case (Nov-24), 'JLL Central London Residential Forecasts: 2024-28 (May-24)

CAPITAL FLOWS: Cross-border investment into PCL has continued to gain momentum. International buyers, particularly those operating through family offices, discretionary trusts, or corporate structures remain highly active. According to Knight Frank, 44% of global family offices indicate they are looking to increase their allocations to real estate, with a particular emphasis on luxury residential *(Knight Frank, The Wealth Report 2025, Mar-25).* U.S. nationals accounted for the largest share (11.6%) of overseas buyers in PCL in Q4-24, followed by Chinese (8.1%) *(Knight Frank research, Feb-25).* With bonds and equities still facing volatility, prime real estate has become a cornerstone of global wealth preservation strategies. London's enduring appeal lies in its reputation as a global financial hub, its culture, convenient time zone, transparent legal system and access to world-class education, all of which are increasingly valued in an uncertain macroeconomic landscape.

REGULATORY ENVIRONMENT: The non-dom tax reforms saw meaningful developments in Q1. Initially feared to deter investment, Rachel Reeves announced a softened stance, in part due to early signs of capital flight, which included an extended transition period for existing non-doms and an Enhanced Temporary Repatriation Facility (TRF) up to 2028 (Financial Times, Feb-25). Wealthy millionaires are a mobile demographic and there will always be a proportion seeking a flight to more attractive tax jurisdictions. The fundamentals of London have not changed.

CONSTRUCTION COSTS: The UK construction sector remains fragile, but the start of 2025 saw an improving environment, with moderating input inflation, stabilised material prices, and clearer monetary policy guidance. National tender price inflation is forecast at 2.75% and 3.0% in Greater London *(G&T, T&T, Q1-25),* reflecting continued, but much lower, pricing pressure than during the peaks of 2022–2023. Labour remains the biggest cost driver, with wages rising 7.3% year-on-year and projected to increase 18–20% between 2022–2026 *(ONS, T&T, Q1-25),* especially in highly regulated trades like MEP and fire safety. Material prices have largely stabilised, though isolated supply chain pressures persist for MEP components or fire-rated ductwork. Contractors remain highly selective, favouring projects that are well-capitalised, clearly structured, and low in delivery risk. As 2025 progresses, anticipated interest rate reductions, stronger public sector investment, and a recovery in residential project starts are expected to drive a more active second half of the year, supporting greater cost stability and creating opportunities for competitive procurement *(CPA, Mar-25).*

Tom Bill, Head of UK Residential Research, Knight Frank
"International buyers and tenants are looking more closely at the UK due to economic instability and political uncertainty elsewhere in the world. The eurozone faces its own structural economic problems, as well as weak growth prospects in the former powerhouse of Germany...Donald Trump has made buying a house in the UK slightly cheaper."

Lucian Cook, Head of Residential Research, Savills
"While there has been plenty of noise about people relocating to more welcoming tax jurisdictions, this has not precipitated a rush of sellers. This reflects the fact that there remain plenty of reasons for the global ultra-high-net-worth community to hold a property in London, even if they change their tax residence. Despite the current geopolitical uncertainty, London remains a safe haven".

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