Market in minutes

Prime London residential markets

As a safe haven for international wealth we expect to see overseas equity continue to be invested in prime London property

Summary

Despite the recent, slight falls during the final quarter of 2010 the Savills Prime London Index ends the year in positive territory. All prime London has risen by 4.6% over 2010, with the majority of this growth happening in the first half of the year.

The biggest annual growth has been in the South West markets, which run from Fulham to Wimbledon, as high demand for family housing from domestic buyers propelled a recovery in values. The prime South West sector has seen growth of 7.8% over the year and is now virtually back to peak levels.

By contrast, Central London saw an increase of 3.8% over the year to leave values within 10% of their pre-crash levels. Values in the East of City markets and the prime Northern area, which includes Hampstead and Islington, are within 8.0% and 11% of peak respectively.

Prime London starts to buck the trend

At a time when headlines talk of falling prices in the UK mainstream residential market, top properties in the nation's capital appear to be showing much greater resilience. Capital values in prime London have shown much smaller falls in the final quarter of 2010 compared to the rest of the country, while the most centrally located addresses have recorded marginal price growth.

The Nationwide UK House Price index is showing average falls of 2.5% for the three months to the end of December, while the Prime London Index is showing falls of just 0.2% in all property over the past three months. This is the first negative prime London quarterly growth figure recorded since the three months to June 2009.

Capital values in prime London have shown much smaller falls in the final quarter of 2010 compared to the rest of the country.

Throughout 2010 house values have regularly outperformed flats in the capital's prime markets.

The distinction between prime and mainstream markets is even more evident in terms of transaction levels. At the end of the third quarter of 2010 transaction levels across the UK markets were still 40% below their pre credit crunch level and 35% down in London as a whole. However, for example, the number of transactions during the first nine months of 2010, over £5m, was 18% higher than seen in the corresponding period in 2007.

House values outperform flats

Throughout 2010 house values have outperformed flats in all prime markets across London. In the prime central London area houses saw a quarterly increase of 0.9% compared to prime central London flats, which rose by 0.2%, leaving annual growth of houses at 5.0%, compared to growth of 3.5% for flats.

There is only a finite supply of houses in the capital and only a minute proportion of new stock is being built as houses. This rarity factor will underpin values in the core central locations and beyond their boundaries.

Once bought by investors and occupiers from overseas, properties are far less likely to return to the market, so it is becoming more difficult for buyers to source houses in the central areas. Overseas nationalities have accounted for 48% of all buyers in the prime markets of central London over the past five years but just 31% of all sellers, indicating that ownership is becoming increasingly international.

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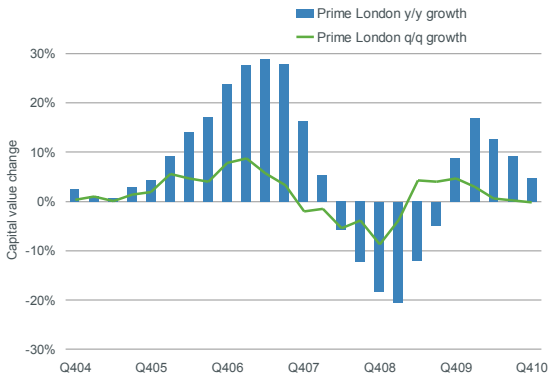
Graph 1.
Quarterly values dip below positive territory



Source: Savills Research

Graph 2.
Overseas buyers vs. overseas sellers

Source: Savills Research

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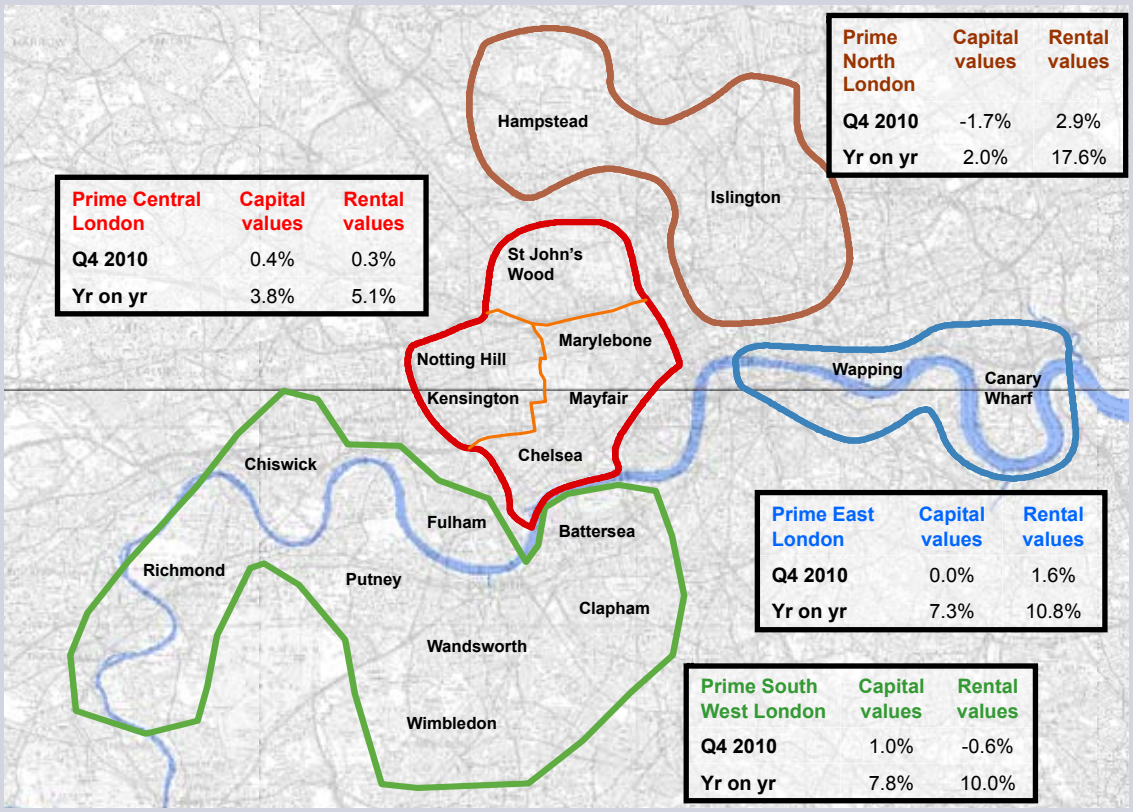
Prime indices results, Q4 2010



Prime North London	Capital values	Rental values
Q4 2010	-1.7%	2.9%
Yr on yr	2.0%	17.6%

Prime Central London	Capital values	Rental values
Q4 2010	0.4%	0.3%
Yr on yr	3.8%	5.1%

Prime East London	Capital values	Rental values
Q4 2010	0.0%	1.6%
Yr on yr	7.3%	10.8%

Prime South West London	Capital values	Rental values
Q4 2010	1.0%	-0.6%
Yr on yr	7.8%	10.0%

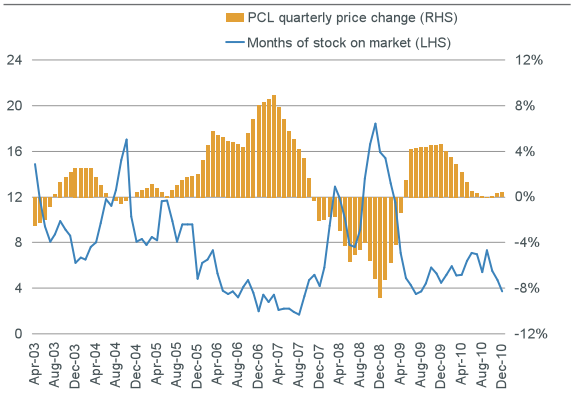
Source: Savills Research

In the traditionally more domestic areas of prime South West London, prices have risen 1.0% in this quarter compared to a 0.3% increase in the third quarter.

This lack of liquidity of overseas owned prime London property has contributed to the lack of stock which we are currently seeing, and at Q4 2010 just 3.7 months of stock is currently on the market. The effect of overseas equity on the prime central London market is displacing domestic demand into other prime markets.

This overseas equity is increasingly dominant in higher value markets, with overseas nationals accounting for 60% of all buyers of central London property between £5million and £10million and 70% over £10million.

Graph 3.
PCL stock levels remain low



Source: Savills Research

In the final quarter of 2010 we saw diverse demand for flats and houses in all prime areas, which resulted in the biggest quarterly increase being seen in prime north London houses which were up 2.5% on the quarter, although flat prices in the same area fell by -2.7%.

Domestic drivers

In the traditionally more domestic areas of prime South West London, prices have also risen 1.0% this quarter compared to a 0.3% increase in the third quarter. Again, the demand appears to have been for houses rather than flats in this area too. Houses rose by 2.4% compared to a fall for flats of -0.3%.

UK buyer demand in London's prime markets has historically been driven by the growth in personal wealth fuelled by earnings from within the financial and business services sectors. The continued recovery of these sectors, along with renewed bonus prospects, has had a positive effect on the domestic prime London markets, such as Fulham, Clapham, Wandsworth, Hampstead and Islington, by increasing demand and reducing available supply.

Prime London rental market

Prime London rents rose by 1.5% during the final quarter of 2010, taking annual growth to 11.5% and leaving rents just 1.5% off their peak of March 2008. The prime London rental market has performed similarly to sales market, both in terms of houses outperforming flats and the geographical differences.

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The dynamic of constrained mortgage markets, limited stock availability, a lack of new build supply, a return of corporate tenants, improving employment prospects and the reduction in accidental landlords have all contributed to the largest yearly growth in prime London rents since 1995.

The lower tiers of the prime London rental markets have seen the strongest growth over the course of 2010. The lack of supply in the mainstream rental markets has pushed tenants into the prime markets as evidenced in prime north London.

A result of lower rental values compared to prime central London and greater domestic demand, prime north London saw annual growth 17.9% for flats while houses grew by 15.4%. This compared to growth of 6.1% for flats and 4.7% for houses in prime central London, where top end rentals performed the poorest in terms of price growth. ■

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Table 1.
Gross rental yields

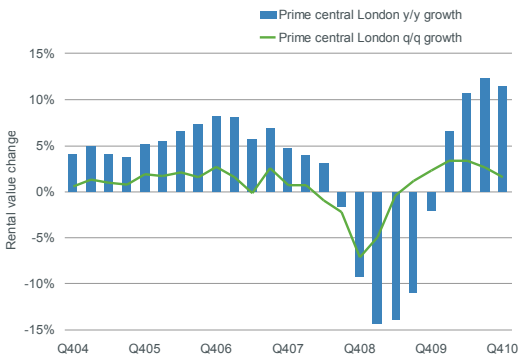
Prime area	Flats	Houses	All Property
Central	3.8%	3.5%	3.7%
North	5.0%	4.0%	4.9%
South West	4.7%	3.6%	4.1%
East	4.6%	n/a	n/a

Source: Savills Research

Savills Prime London Residential Index

This Market in Minutes is derived from Savills Prime London Residential Index. The Index is published quarterly and monitors changes in residential sales values and rentals across prime areas within London with historic data dating back to 1979. For further information on the Index, and the opportunity to subscribe to the detailed statistics, contact Sophie Chick (020 7016 3786).

Graph 4
Strong rental growth during 2010



Source: Savills Research

Outlook

The softening of capital values over the course of 2011 remains a distinct likelihood, as evidenced by the second half of 2010. This will be the result of weakened buyer sentiment and an uncertain economic outlook in the forthcoming year.

Despite this, as witnessed during the final quarter of 2010, the top end of the residential sales market is expected to out-perform the mainstream and, within London, prime properties in the central area are expected to outperform again.

Given that overseas money has been particularly important over the past five years, (a result partly of the falling exchange rate but also the role of London as a safe haven for overseas wealth), we expect that overseas equity will continue to flow into London's residential property and is expected to continue to provide a safe 'deposit' for international buyers. This will support both sales and rental values throughout the coming year – especially compared to less equity-rich, mainstream markets.

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