

Market in Minutes Fulham and the Prime South West Residential Market

September 2013



SUMMARY

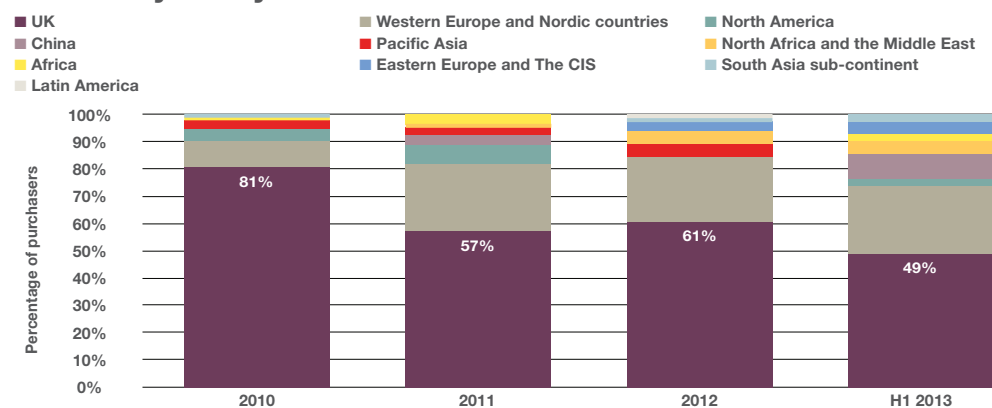
At 27.5% above peak Fulham's performance is only marginally behind prime central London

■ Prime south west London outperformed the wider prime London markets over the second quarter of 2013, with growth of 3.2% compared to the 2.5% increase seen across all prime London.

■ Fulham has attracted demand from wealthy buyers from Europe and the Commonwealth countries. UK buyers accounted for 81% of properties in 2010, however, in comparison, in 2013 they accounted for only 49%.

■ New developments in prime London are currently selling well, with evidence showing schemes selling out up to two years off plan.

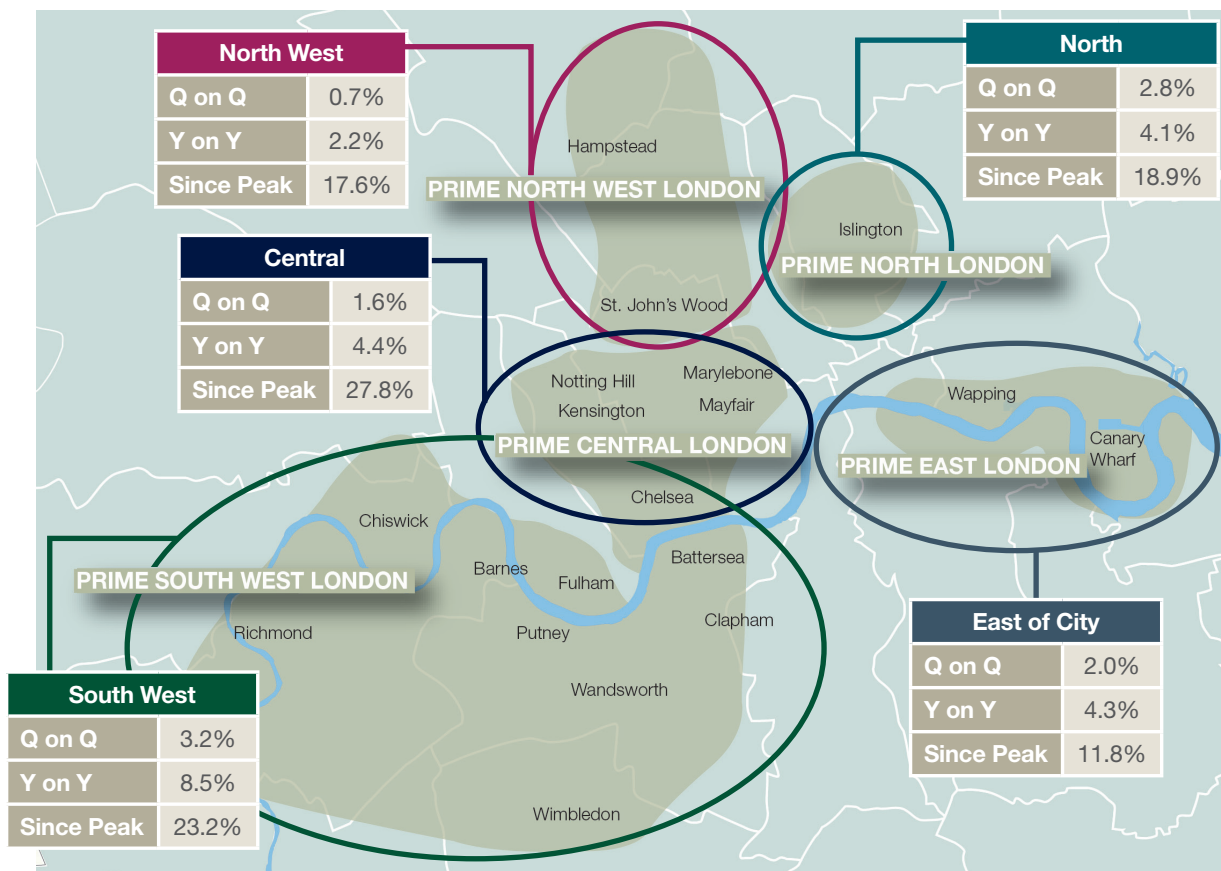
GRAPH 1
Nationality of buyers in Fulham



Source: Savills Research

MAP 1

Price movements in the prime London markets



Source: Savills Research

“Annual growth now stands at 8.5%, much higher than the 4.4% seen in prime London” Sophie Chick, Savills Research

➔ **Prime south west**
 Prime south west London outperformed the wider prime London markets over the second quarter of 2013, with growth of 3.2% compared to the 2.5% increase seen across all prime London.

Annual growth now stands at 8.5%, much higher than the 4.4% seen in prime central London (PCL). Despite reduced city bonuses, these markets are benefiting from wealth accumulated prior to the downturn, new wealth creation, especially from West End hedge funds, and increased buying activity from international buyers working and resident full time in the capital.

At the same time, domestic wealth has resisted a move out of the capital in this recovery cycle, resulting in a concentration of demand in prime south west London.

A hybrid location
 The best performing local market has been Fulham, SW6, with annual growth of 13.0%. Fulham is increasingly seen as a hybrid between central London and south west London by showing some of the attributes of both markets at a price point between the two. This reflects the fact that it has been undergoing a process of ultra-gentrification, attracting international and domestic buyers who, despite significant wealth, have been priced out of the central London market.

Although PCL is enjoying the strongest bounce back since peak, with prices 27.8% above, Fulham is only marginally behind at 27.5% above. With prime Fulham’s second hand property averaging around £980 per sq ft compared to £2,930 in the

core central area of Knightsbridge, the relative value for money Fulham offers is evident. Nearby regeneration taking place at Earls Court will help bridge the gap between PCL and prime Fulham. New build continues to attract a premium over second hand stock across the prime markets.

London continues to be the preferred global destination for wealthy people to invest and live in. Besides global standing, amenities, quality of life and facilities, buyers often have an existing network of business contacts and friends and family in London, which also attracts them.

London has historically been renowned for stability in terms of tax and politics. This reputation continues and with unrest elsewhere in the world, this is likely to continue drawing buyers into the market. Other drivers include its time zone, enabling global trade, English as the main language, historical and global ties, and access to the financial markets.

International demand

International purchasers are a key component of the PCL market and are attracted by London's status as a safe haven for wealth and a global city as well as its stable legal system.

The Fulham market is increasingly being driven by international buyers recognising Fulham as an ideal location to raise a family. UK buyers accounted for 81% of properties in Fulham in 2010, however, in comparison, in 2013 they accounted for only 49% of the market.

In particular, Fulham has attracted demand from wealthy buyers from Europe and the Commonwealth countries, attracted by international schools and specifically seeking family homes in London, both to purchase and let.

Global wealth creation

There is an enormous amount of overseas wealth coming to the capital. Many ultra high net worth individuals (UHNWI) are attracted to the prime London markets; some come because they are based here but others see a London property as part of a portfolio of must-have real estate.

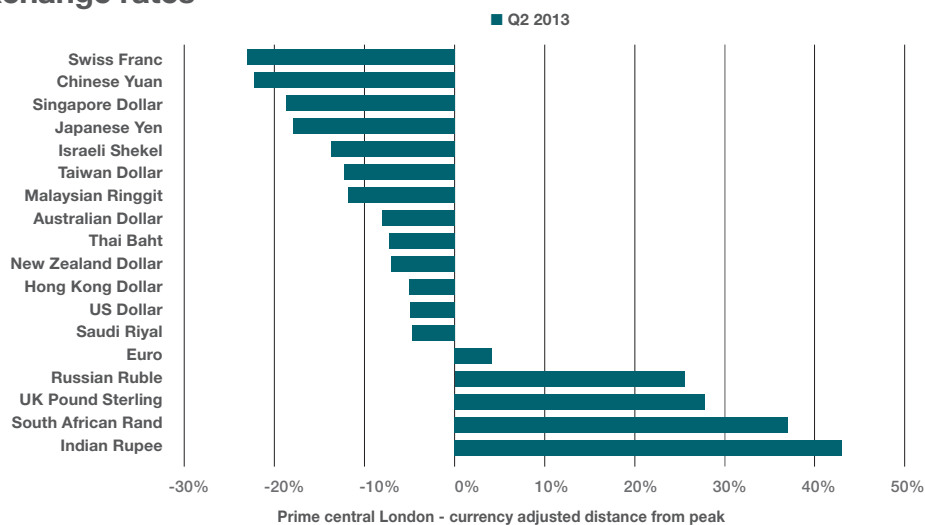
Wealth-X estimate that in 2012 there were 190,000 UHNWIs, representing \$26 trillion, with this value increasing by 30% over the next five years. This growth in global wealth, especially in emerging economies, is aiding more and more overseas purchasers to buy in London.

Whilst domestic wealth creation is weaker than it was in 2007, global wealth creation is still taking place. However, Oxford Economics forecasts for GDP growth over the period 2012 to 2014 have been downgraded for every global region since their previous forecast in 2011, with the emerging economies of China, India and MENA continuing to see the biggest growth.

Exchange rates

Graph 2 demonstrates how since peak the price of an average PCL property has been heavily discounted to buyers denominated in other currencies. For example, a PCL property is currently over 20% cheaper to Japanese purchasers paying in Yen than it was in the peak period of 2007.

GRAPH 2 Exchange rates



Source: Savills Research, Bank of England

“We expect to see a continued displacement of wealth from the PCL markets into other parts of prime London such as Fulham” Katy Warrick, Savills Research

This exchange rate opportunity has increased the level of international equity flowing into PCL property markets as it remains relatively cheap in many currencies compared to the market peak in 2007.

Strong rental market

The strength of the prime south west market is reinforced by the rental market in this location, which has outperformed all other prime areas of London. Prime south west rental property has seen a 2% annual increase compared to the -1.2% fall experienced in PCL.

Lower corporate budgets have displaced demand for family houses from central London into less expensive markets such as in the south west, supplementing demand from a broader tenant profile.

Most tenants choose to rent in south west London because of relocation. Of those who have not needed to relocate, a much higher proportion rent out of choice than as a result of affordability.

Since 2011, international tenants have accounted for 46% of all lets, mostly North Americans and Western

Europeans. Tenants working in the financial services sector are the most dominant although in the last two years the proportion of tenants working in financial services has decreased as the proportion of tenants working in media, information and science has increased.

Supply and demand

High levels of demand for housing in London are driven by levels of employment growth in excess of the UK average.

This is due to a highly skilled and flexible workforce, London's ongoing status as a global centre of finance, together with expansion of its world class higher education sector, leading to significant levels of in-migration and levels of income growth above the UK average.

Levels of demand vary across the market segments. Supply of prime new build stock is currently limited. However, there is a large pipeline of units due to be delivered into the prime markets in the next five years.

New developments in prime London are currently selling well, with evidence showing schemes selling →

OUTLOOK

The market in 2013

■ In the first six months of the year we have seen prices in prime south west London rise by 6.5%. It would seem that the tax changes introduced during 2012 have largely been absorbed and we are now forecasting price growth of 7.0% in 2013.

■ With prime property, its taxation and the impact of international investment all under political scrutiny, we believe the next test of the market will come in the run up to the next general election. However, unexpected falls in the Sterling have continued to make London look inexpensive in an international context, particularly when set against the cost of buying in other world cities.

■ We expect to see a continued displacement of wealth from the PCL markets into other parts of prime London such as Fulham. The markets in closest proximity to PCL will see continued overseas buying activity, mainly from full time residents in the capital. This means the PCL and other prime markets will remain linked.

■ As the prime markets have seen a slowing of rental growth this year, Fulham has outperformed and continued to experience positive growth.

TABLE 1 **House prices** Five-year forecast values

Capital Growth	2013	2014	2015	2016	2017	2013-17
PCL*	6.0% 	3.0% 	-1.0% 	8.0% 	6.5% 	24.3%
Outer Prime London*	7.0% 	3.5% 	-0.5% 	7.0% 	7.0% 	26.2%
Rental growth	2013	2014	2015	2016	2017	2013-17
PCL*	-1.0% 	2.5% 	3.0% 	4.5% 	4.5% 	14.1%
Greater London*	3.0% 	4.0% 	4.5% 	6.0% 	6.5% 	26.4%

Source: Savills Research *Assuming no further changes to the taxation of high value property

➔ out up to two years off plan, achieved through a combination of overseas and UK based launches. Our estimation of future supply now exceeds the previous peak delivery, meaning the development pipeline of prime schemes across London is entering uncharted territory.

There is very little development of new houses in London, especially in the more central areas where land values are much higher. In the borough of Hammersmith and Fulham there are currently only two schemes providing any new houses. London Square (SW6) currently has 40 houses under construction, and St Peters Place (W6) has seven houses that are all sold.

In addition, there are also two schemes, in the wider borough, with houses which have planning permission, although it is not unusual

for schemes which have planning permission to remain un-built for many years. These are Palace Wharf (W6) with planning permission for five houses, and a scheme on Goldhawk Road (W12) with planning permission for 22 houses.

To help put this in context, in the borough of Hammersmith and Fulham, new build development of houses has accounted for 6.9% of all new build development over the past five years. Of the schemes where we have details of planning in the pipeline, houses account for just 6.2%, and it is unlikely all of these will be delivered in the next five years.

Our forecasts express our confidence in the residential markets over the long term, although we expect a period of slower growth during the UK election period. ■

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