

Market in Minutes

Prime London Residential Markets

October 2014



SUMMARY

Prime house price growth in London slows as buyers lack urgency

■ Price growth in London's prime markets grew by an average of just 0.5% in the third quarter as market uncertainty resulted in a lack of urgency among buyers.

■ The caution seen earlier in the year in central London has spread to markets in other more domestic prime London locations however the prime North and East of City markets have proved more resilient.

■ Although the fundamentals of the market remain sound, we expect the spectre of interest rate rises and pre-election rhetoric around a mansion tax will continue to suppress the potential for further growth over the course of the next 12 months.

TABLE 1
House price growth across prime London

Q3 2014	Prime Central London	Prime North West London	Prime South West London	Prime North London	Prime East of City	All Prime London average
Q on Q	0.4%	1.2%	0.1%	1.3%	1.9%	0.5%
Yr to date	3.0%	5.7%	4.6%	12.7%	12.1%	5.4%
2013 total	8.3%	5.6%	14.0%	11.5%	13.3%	11.8%
Since peak	41.0%	30.0%	37.9%	45.3%	38.0%	38.6%

Source: Savills Research

→ Price growth in London's prime residential markets continued to slow in the third quarter of 2014 as the caution seen early in the year in central London markets spread to markets in other more domestic prime London locations.

Values grew by an average of just 0.5% in the quarter with gains in some parts of the market being offset by modest price falls elsewhere.

Market uncertainty

Despite an improving domestic economy, the uncertainty surrounding the Scottish referendum and ongoing discussions around a mansion tax contributed to a general lack of urgency among buyers.

This occurred against the backdrop of a slowdown in the capital's mainstream housing market, with the RICS reporting falls in new buyer enquiries and the Nationwide indicating that prices rose by just 0.2% in the quarter, as the recent extraordinary price growth came to an abrupt end.

Local variation

The continued slowdown in growth means that annual price growth in the prime markets of Chelsea, Belgravia and Knightsbridge now averages just 3.3% having flat-lined in the last three months.

By contrast, slightly less expensive central London markets such as Notting Hill and Kensington have shown quarterly price growth slightly in excess of 1.0%, taking year on year growth to 10%.

Elsewhere in London, prices were all but static in the prime markets of south west London, a band that runs from Fulham and Wandsworth to Richmond and Wimbledon, as prices rose by just 0.1% in the quarter.

These affluent domestic markets were the star performers of 2013, with 14.0% growth, but now look fully valued to buyers who are constrained by more stringent mortgage lending criteria and looming interest rate rises.

Instead, it is the prime markets of Islington, Canary Wharf and Wapping that have proved the most resilient, having seen double digit price growth in the first nine months of this year despite a slowing in the traditionally quieter summer period.

Outlook

It now seems certain that the spectre of interest rate rises and

pre-election rhetoric around a mansion tax will suppress the potential for further growth over the next 12 months, even though the underlying fundamentals of the market remain sound.

However, in the press at least, there does appear to be an increasing realisation that as tax loopholes have been closed and rates of tax increased, that there is much less of a case for an unwieldy Mansion Tax.

It has not gone unnoticed that £2 million plus property raised over £1 billion of stamp duty in 2013-14 and that the stamp duty take from residential property in the two boroughs of Westminster and Kensington & Chelsea exceed the combined total for Northern Ireland, Wales, Scotland, the North East & North West of England and Yorkshire & the Humber. ■

The £10 million plus market

Transaction levels remain reasonably robust

Annual price growth in the £10 million plus market dipped into negative territory, with values 1.3% lower than a year ago. In part, this reflects the very strong recovery in values between the post credit-crunch nadir of March 2009 and June 2012, during which period prices of £10 million plus property rose by 80%, to leave them 46% above their pre downturn peak.

Despite this we have seen the levels of transactions over £10 million remain reasonably robust. Over the past two years we have witnessed around 40 transactions per quarter on average in this subsector of the market. Those in the third quarter look like they will be within 10% of this level, with over £3 billion spent in this market in the past year.

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