

# Market in Minutes Prime London Residential Markets

January 2012



## SUMMARY

International demand delivers further price growth

■ Prices in prime London residential markets rose 0.8% in the final quarter of 2011 to leave prices up by 8.7% over the year.

■ The distinction between international and domestic markets continues, with the annual price growth in central London of 14.1% compared to growth of 7.1% in the prime markets of South West London.

■ Price growth of 3.0% is expected in 2012 in the central London markets given continued international demand and constrained stock levels.

TABLE 1  
Price Movements to December 2011

	Prime Central London		Prime SW London	Prime North London	Prime East of City
	All	Ultra prime			
Quarterly	+1.1%	+1.9%	+1.2%	-0.9%	+0.6%
Annual	+14.1%	+18.6%	+7.1%	+7.4%	+4.6%
Since 07 Peak	+16.9%	+24.4%	+8.0%	+5.9%	+2.3%

Graph source: Savills Research

TABLE 2  
**PRIME MARKETS**  
Five-year forecast values

Forecasts	Change from peak to date	2012	2013	2014	2015	2016
Prime Central London	16.9% 	3.0% 	0.0% 	5.0% 	6.5% 	6.5% 

Data source: Savills Research

→ The prime residential markets of London continued to show price growth in the 4th quarter of 2011, despite the strong headwinds facing the wider UK housing markets.

Prices rose by a modest 0.8% over the quarter, reflecting a year of two halves in which annual price growth of 8.7% was driven by strong price growth in the first half of the year.

Prime Central London performed the most strongly over the course of 2011, as it benefitted from strong demand from international buyers. They accounted for 55% of sales and introduced £4.3 billion of new equity into the market in the year.

Global unrest and economic uncertainty played to London's advantage by funneling that equity into its housing markets.

The European buyer share of the market rose from 13.2% of sales in 2010 to 19.5%, whilst that of Middle Eastern buyers increased from 7.6% to 8.5%.

### Ultra prime market

In the ultra prime market, where values typically exceed £15 million and overseas demand is strongest,

annual growth ended the year just short of 19% and record sales, with an aggregate value in excess of £1.9 billion, were achieved in the year. However even in this market growth was relatively modest in the second half of 2011 at just 3.7%.

In the more domestic markets of prime South West and prime North London, annual price growth has been less strong (between 7.0% and 7.5% on average), though these areas have seen some of the strongest transaction levels in the capital.

With less international demand and without the consequential injection of equity, these markets have been more reliant on the recycling of existing equity, less of which was exported into the commuter belt than in previous years.

This equity has been all important, particularly given that the rental market which is more dependent on earnings and earnings expectations saw modest rental falls in the quarter (averaging -2.0% across the quarter).

### Prime domestic markets

Sentiment among buyers in the prime domestic markets has not been immune to the weak economic outlook

GRAPH 1  
**Months of stock available on market – PCL**



Graph source: Savills Research

## OUTLOOK

### The market in 2012

■ On average prices currently exceed their September 2007 peak in all of the prime London markets, significantly so in central London. This has been delivered on the back of a strong rebound in prices over a three year period

■ The weakening economic outlook, both domestically and globally is likely to prevent a repeat in the short to medium term.

■ Within central London we expect to see static or modestly rising prices, though this is dependent on a continued inflow of international wealth.

■ With low interest rates we expect the supply of property within London's other prime markets to be kept in check. This is expected to support current pricing, though without city bonus money to bolster demand, there seems little capacity for price growth over the next 12 to 24 months.

■ There are however continued risks to these forecasts which assume the avoidance of both disorderly default in the eurozone and a double dip recession in the US and UK.

and the challenges facing the financial and business services sector.

This has been most evident in the prime markets of the East of City where, despite values being restored to levels seen at the peak of the market in the third quarter of 2007, annual price growth remained below 5%.

The distinctions between overseas and domestic demand are also reflected in the locations and types of property that have performed most strongly. In central London, strong international demand has meant large trophy houses and turn key flats have outperformed top floor walk ups and basement flats.

Outside of central London demand for such properties is less strong, even in markets such as Hampstead.

In the East of City markets foreign equity has been targeted at investment stock, while prime South West and North London period family houses with good tube access have proved the most desirable. In both cases the quality of property has been the key differential. ■

TABLE 3  
2011 Prime Central London Hot List

	Buyer Types	Locations	Property Types
<b>Red Hot</b>	International billionaires Greeks, Italians and Egyptians	Maylebone Regents Park	Large trophy houses Turn-key flats
<b>Warm</b>	Developers Other Euro buyers	Mayfair Knightsbridge & Chelsea Kensington St John's Wood	Un-modernised houses ripe for improvement
<b>Cool</b>	UK financial sector Americans	West Brompton	Family houses in good order
<b>Chilled</b>	UK non-financial sector	St James's	Top floor walk-ups Basement flats
<b>Frozen</b>	First time buyers	2nd rate locations e.g. main roads	Over-priced stock

Graph source: Savills Research

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 “The distinction between domestic and overseas demand is reflected in the performance of different locations and property types.”  
 Lucian Cook,  
 Savills Research  
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