Market in minutes

Prime London residential markets

Prime London continues to show growth in third quarter albeit at a slower rate

Despite uncertainty in the domestic and global economies, the prime residential markets of London continued to show price growth in the third quarter of 2011, albeit at a slower rate than seen in the first half of the year. Prices rose by an average of just 1.1% over the three months to the end of September compared to 6.4% from January to June.

Continuing demand from overseas buyers looking for a global safe haven investment means that price growth has been greatest in the markets of prime central London. Prices rose by 1.7% in the quarter, taking year to date growth up to 12.8%.

Some 58% of buyers were foreign nationals, with over one in five buying for investment. Less than half of buyers were acquiring property for use as their main residence and British buyers accounted for less than half of all purchases

Those prime markets dominated by domestic demand have generally shown lower levels of price growth. But all prime London remains relatively buoyant compared to the mainstream UK market.

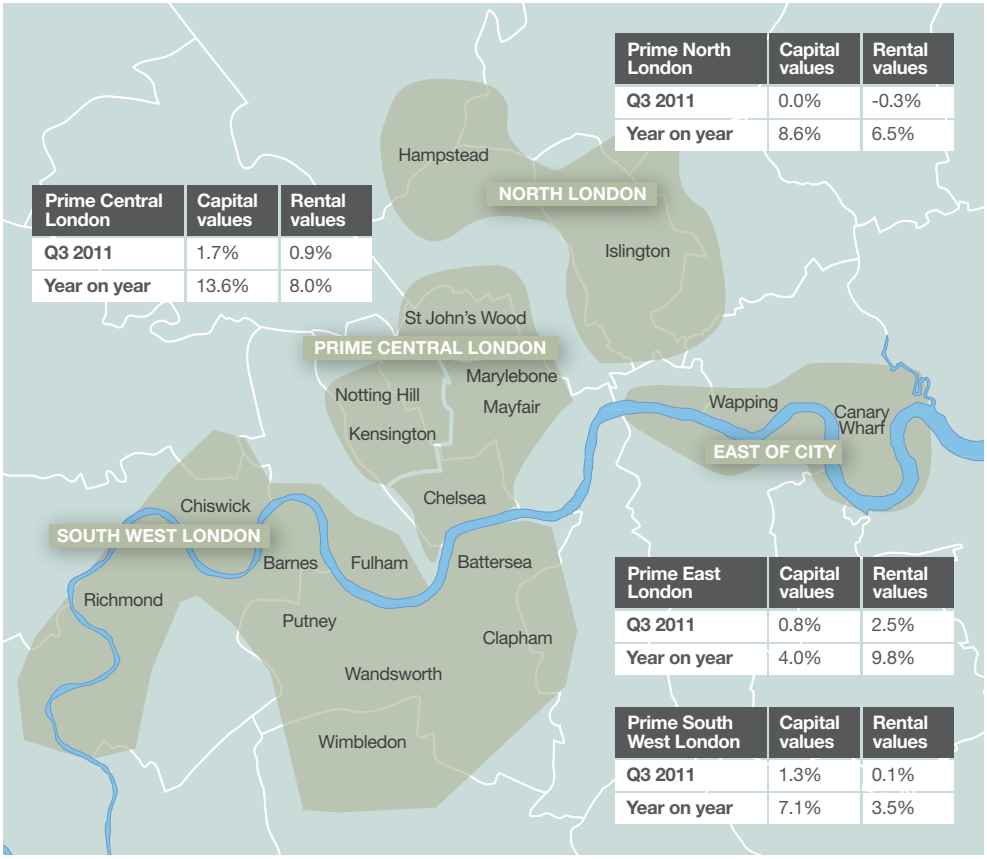
Within prime South West London, values rose by 1.3% in the quarter, taking annual price growth to 7.1%. This continued price growth has been underpinned by low levels of available stock. Those households selling prime family homes in the area are tending to recycle their housing wealth locally rather than make a move into the commuter belt.

The relative strength of the sub-markets is also seen in the sale price asking price ratio. In both central London and the prime markets of North London (including Hampstead and Islington) sale prices averaged 1% to 2% above asking price in the three months to the end of September.

By contrast, in South West London and the prime East of City markets they were 5% and 6% below asking price respectively.

FIGURE 1

Prime London performance by area A comparison of rental values against capital values in key areas of London in Q3 2011



Prime North London	Capital values	Rental values
Q3 2011	0.0%	-0.3%
Year on year	8.6%	6.5%

Prime Central London	Capital values	Rental values
Q3 2011	1.7%	0.9%
Year on year	13.6%	8.0%

Prime East London	Capital values	Rental values
Q3 2011	0.8%	2.5%
Year on year	4.0%	9.8%

Prime South West London	Capital values	Rental values
Q3 2011	1.3%	0.1%
Year on year	7.1%	3.5%

Graph source: Savills Research

> "Prices rose by 1.1% over the three months to the end of September compared to 6.4% from January to June."

The prime markets of Wapping and Canary Wharf have generally seen the least strong recovery since the →

downturn, although prices are 1.7% above their 2007 peak, with year to date growth of 4%. These areas have seen reduced levels of owner occupier demand from those employed in the financial and business services sector, but this has presented investment opportunities which have attracted overseas interest.

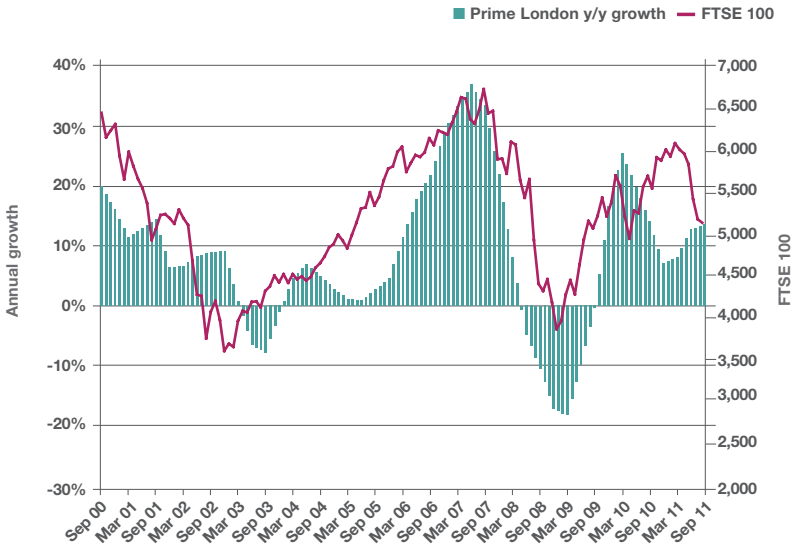
Rental markets

Rental growth in the prime markets of London slowed to just 0.4% over the course of the third quarter of 2011, with small falls witnessed in some markets. This follows strong growth in the previous 18 months.

In 2011 demand from business-related tenants appears to have been constrained by the economic backdrop. Corporate lettings accounted for 10% of the market in 2010, but just 7% in the first three quarters of 2011. ■

FIGURE 2

Prime Central London year on year growth against FTSE 100



Graph 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).

OUTLOOK

An overview of the market

■ Prime London property has seen a very pronounced recovery since the downturn and has so far escaped the 'second slip' seen in many mainstream and regional markets since mid 2010.

■ This said, there are some factors that could reduce demand over the period of the next six to twelve months. Because buyers from the financial and business services sector make up a high proportion of demand, the downturn in the stock markets and continued concerns within the banking sector are an issue. The large scale return of City bonus money to the housing market still remains some way off.

■ Recent events, including continued troubles in the Eurozone economy, the downgrading of America's debt, and the impact that these could have on global wealth generation, also present an increased risk to the market.

■ For the time being, significant amounts of global equity are still flowing into the prime markets of London. Global social and economic uncertainty continues to underpin demand for prime central London residential property as a 'safe haven' investment.

■ Footnote: In September 2010, we revised the sample of properties within our index to ensure they continued to be representative of the prime markets in London. We have now revised our reported index results over the period since June 2005 using this sample. A more detailed review of what this means to our prime central London index can be seen within our recent document: Prime Central London Residential Spotlight: A performance review 2005/11.

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