Market in minutes

Prime London residential markets

The prime markets of South West London, including Richmond (pictured), saw strong growth over the year until the end of June.

Summary

Average house prices across the prime markets of London remained flat over the third quarter, taking six monthly growth to just 1.4%. The uncertain economic outlook means that new buyer enquiries have slipped and stock levels have begun to rise. However, good rates of sale have prevented excess stock levels from building, meaning the price falls seen in some parts of the market have remained modest, and over the course of the year prices should still show low levels of price growth.

Rental growth in prime central London has begun to slow as a mismatch emerges between tenants' specifications and the properties available. By contrast, stronger rental demand in the lower tiers of the market and for smaller properties continues to fuel growth in more peripheral areas.

Values defy expectations of falls

Following the slowdown in growth over the second quarter of 2010, price growth of prime residential property across London continued to slow over the summer months. The froth of 2009 and early 2010 appears to have come out of the market. With weakening new buyer activity some price falls are to be expected over the remainder of the year and into 2011.

Favourable exchange rates continue to offer opportunities for overseas buyers and this has supported transaction levels, particularly within prime central London, meaning that less stock has built up than in the mainstream.

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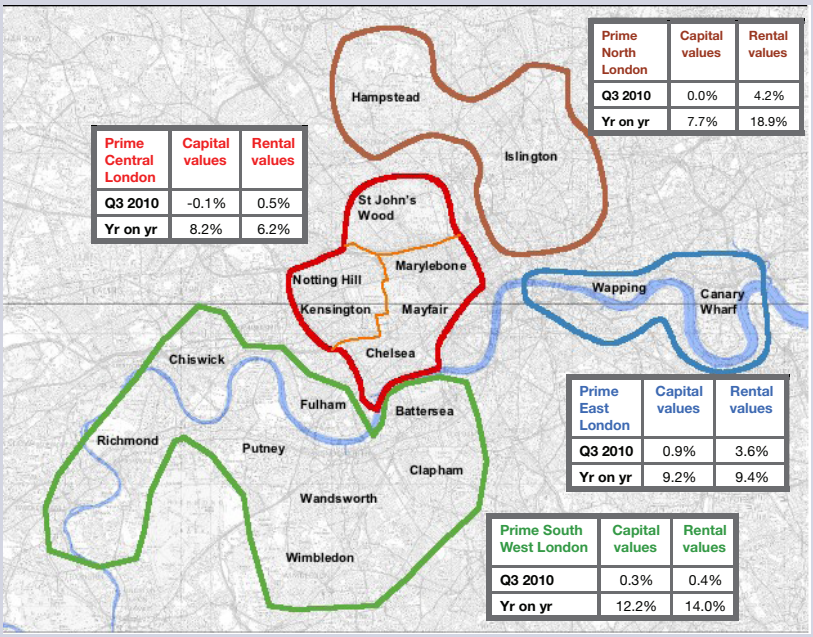
Prime indices results, Q3 2010



Prime North London	Capital values	Rental values
Q3 2010	0.0%	4.2%
Yr on yr	7.7%	18.9%

Prime Central London	Capital values	Rental values
Q3 2010	-0.1%	0.5%
Yr on yr	8.2%	6.2%

Prime East London	Capital values	Rental values
Q3 2010	0.9%	3.6%
Yr on yr	9.2%	9.4%

Prime South West London	Capital values	Rental values
Q3 2010	0.3%	0.4%
Yr on yr	12.2%	14.0%

Prime North London, including Hampstead and Islington, is seeing strongest rental growth at 4.2% in the third quarter.

Average price growth across London's prime market remained just positive in Q3, though we did see small price falls in some segments of the market. Weaker demand led to a fall of -0.3% in the value of prime central London flats, with flats in prime South West London also down -0.7%. By contrast, the value of houses (notably smaller houses at the lower end of the these markets) continue to rise, albeit at a slower rate than previously.

South West London saw strong price growth over the year to the end of June 2010 as domestic buyer demand for family housing drove the recovery. Weaker sentiment, fuelled by uncertainty over future income growth, taxes and public spending cuts, has since tempered demand. As a result values rose by 0.3% in the third quarter, taking year on year growth to 12.2%.

As stock levels rise and new buyer registrations slip, a growing gap between vendor and purchaser expectations is likely to translate into some relatively modest price falls by the year end.

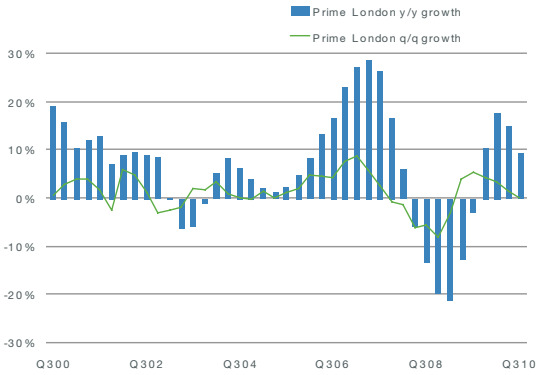
Prime London rental market

Prime London rents rose by 2.7% over the third quarter of 2010, taking year on year growth to 12.3% and leaving rents just 3% off their peak of March 2008.

This average hides much geographical variation. Prime central London rents rose by just 0.5% over the quarter (6.2% year on year). Growth of 4.3% in the first six months of the year was supported by a lack of properties available to rent at a time when increased demand for rental property, particularly from corporate tenants, was recovering. The third quarter has seen corporate and relocation demand soften, and a discrepancy emerging between applicants' requirements (smaller 1 bed properties) and available supply (2/3+ beds).

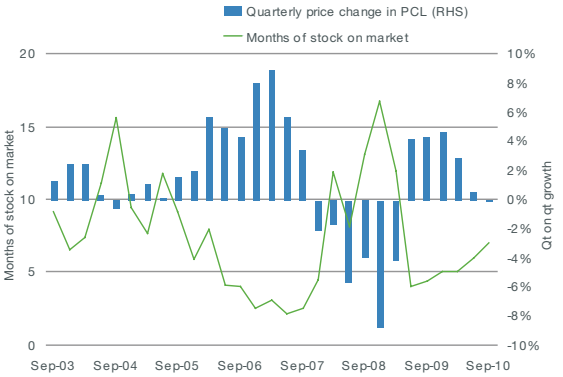
The lower tiers of the prime London rental market have seen the strongest growth over 2010 as caution among tenants and reduced corporate allowances have concentrated demand. As a result, prime North London, including Hampstead and Islington, is currently seeing

Graph 1.
Values static across prime London market



Source: Savills Research

Graph 2.
Rising levels of stock in market to put pressure on prices



Source: Savills Research

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strongest rental growth at 4.2% over the third quarter, an increase of 14.4% in the year to date. However, this growth is coming from increased demand from City tenants for smaller properties, while increased supply and static demand for family housing is stalling growth at the upper end of the market.

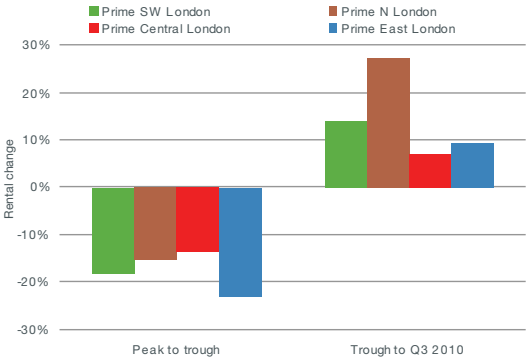
In prime South West London the particularly strong sales market this year has reduced the supply of rental properties as accidental landlords returned properties to the sales market.

Additionally, needs-based family demand has continued, pushing the rental value of houses up by 11.2% in the first six months of 2010. However, the rate of price growth slowed in the third quarter as demand from young professional sharers as well as families became aligned with supply over the summer months. ■

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 back to 1979. For further information on the index, please contact Sophie Chick on 020 7016 3786.

Graph 3.
Rental growth strongest in prime North London



Source: Savills Research

Outlook

Looking ahead, prices in the prime markets of London are forecast to slip slightly over the remainder of 2010 and into 2011 as the uncertain economic outlook and negative sentiment impact on buyers, both domestic and international.

Providing there is no further major economic shock, the longer term outlook for the prime London markets remains positive and the prime residential markets of London are expected to outperform the mainstream over the next five years.

International demand is expected to continue to underpin growth in prices across prime London, particularly in core central locations. This demand will be underpinned by a growing world economy (forecast to grow by 12% by the end of 2012) and particularly strong growth in some parts of the world (notably India and China), creating new demand for prime London residential property.

Furthermore, accumulated and anticipated City bonus payments, coupled with financial and business sector growth, will support the more domestic markets, even though taxation and regulation will reduce the spending power of those bonuses.

In the short term, growing uncertainty in the sales market could provide a boost to demand for rental property across prime London as prospective purchasers adopt a wait-and-see strategy. Medium term prospects for the prime rental market are reliant on employment prospects in the financial and business services sector, recently revised upwards for 2013 and 2014.

Our longer term outlook for the rental market therefore remains broadly positive, with rental growth expected to exceed income growth over the next few years.

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