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Market in Minutes
Prime London Residential Markets

July 2012

SUMMARY

Global economic uncertainty means overseas buyers remain committed to central locations

- London's prime residential values rose by an average of 0.9% in the second quarter of 2012, and annual price growth slowed to 6.0%, as some of the heat came out of the market in the early summer.
- Overseas buyers remained committed to the very best central locations, accounting for 58% of buyers in the first half of 2012.
- Though limited in supply, sales of new build property tailored towards the needs of high net worth overseas buyers have been particularly strong.

TABLE 1

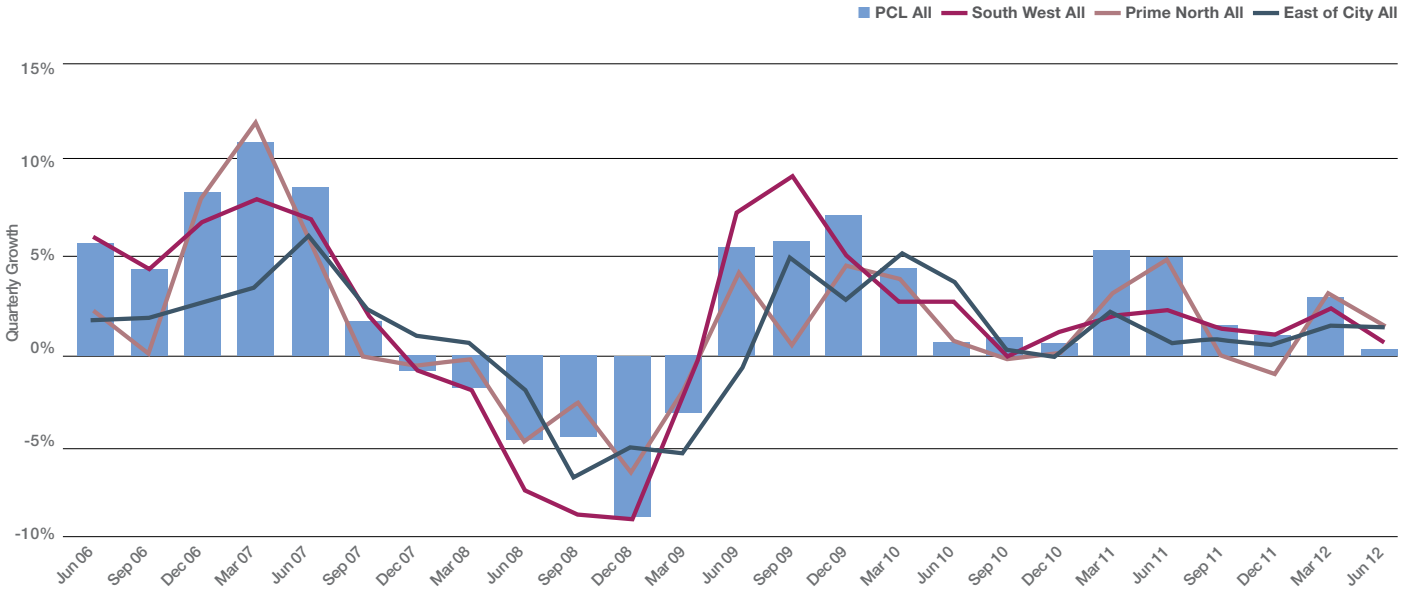
Price Movements to June 2012

	Prime Central London		Prime South West London	Prime North London	Prime East of City
	All	Ultra Prime			
Q on Q	0.4%	0.2%	0.9%	1.6%	1.5%
Y on Y	6.4%	8.6%	6.5%	3.9%	4.6%
5 Year Growth	23.1%	40.4%	15.2%	11%	9.7%
Average £/sqft	£1,825	£2,925	£775	£925	£700

Table source: Savills Research

GRAPH 1

Prime London Capital Values Quarterly Growth



Graph source: Savills Research

London's prime residential values rose by an average of 0.9% in the second quarter of 2012, and annual price growth slowed to 6.0%, as some of the heat came out of the market in the early summer.

Price growth in Prime Central London slowed to just 0.4%. That headline figure masks a divergence between areas. Prices in Chelsea, Mayfair, Belgravia and Knightsbridge rose by over 1%. Those in Marylebone, Notting Hill, Kensington and Holland Park fell marginally in the quarter.

This reflects how different parts of the market have reacted differently to key market drivers.

Overseas buyers remained committed to the very best central locations, accounting for 58% of buyers in the first half of 2012. Here buyers looking for safe haven investments have underpinned demand.

By contrast, there has been a general lack of urgency among other buyers because of uncertainty over both the global economic outlook and the effect of the stamp duty and associated tax changes introduced in the budget.

In higher price bands the effect of this increased tax burden has had less of an effect. There were more than 100 sales of £5million+ residential properties in the three months to the end of June 2012, the total value of which exceeded £1billion in a quarter, for only the fourth time in the past five years.

Though limited in supply, sales of new build property tailored towards the needs of high net worth overseas buyers have been particularly strong. In the last quarter, they accounted for 15% of these £5million+ sales.

International demand is less of a market driver in other prime locations and this has resulted in a slower, but less volatile recovery to date.

Price growth in prime South West London exceeded that of central London in the second quarter. Nonetheless, it slowed to 0.9% in response to the general uncertainty in the UK economy and specifically the banking industry, given the extent to which demand is driven by domestic family buyers employed in the business and financial services sector.

Similarly, in the prime markets of North London, prices rose by 1.6% in the quarter but show growth of just 3.9% year on year.

There has been little evidence of bonus money in either of these markets since the credit crunch. Price growth has been driven by the injection of housing equity from central London, as buyers move along London's wealth corridors and existing equity that has been recycled as families have been reluctant to move into the commuter zone.

Though there has been less use of the offshore ownership structures that were specifically targeted in the last budget in this market, the increase in the general rate of stamp duty has created a price threshold around £2million in these markets.

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>
> Lucian Cook, Savills Research

TABLE 2

PRIME MARKETS

Five-year forecast values

Forecasts	2011 (actual)	2012	2013	2014	2015	2016
Prime Central London	14.1%	3.0%	0.0%	5.0%	6.5%	6.5%

Table source: Savills Research

In the prime East of City markets, values rose by 1.5% over the last three months and 4.6% year on year, but exceed their 2007 peak by a much lesser degree than other parts of the prime market. Here, there has been a noticeable disparity between the performance of the warehouse conversion markets of Wapping and those of Canary Wharf, where there is a concentration of modern one and two bedroom flats. In the former, five year price growth stands at 17.4% with price growth of 8.3% in the past year, whilst in the latter, prices are essentially on a par with those five years ago, having shown no price growth in the past 12 months.

OUTLOOK

The market in 2012

- It is now three years since the markets bottomed out. Since then, we have seen a period of intense activity and price growth, meaning that prices are higher than their 2007 peak across all of the prime London markets and some 21% above peak in central London. That leaves less capacity for further price growth in the short term.

- Stamp duty changes over £2million, means buyers are finding it more difficult to structure transactions in a way that protects their wider tax position. Additionally, the currency play that acted as a catalyst for price growth has been eroded.

- However, the longer term fundamentals for the central London market, constrained stock and global wealth generation, look sound. Whilst we therefore expect the market to plateau for a period, five year growth is forecast to be around 23%.

- The lull in price growth in central London is likely to affect the other prime markets and contribute to weaker buyer sentiment that flows from the wider economic outlook. That indicates a similar period of static prices, though a lack of new build supply in Canary Wharf may allow that submarket to close the gap on its counterparts.

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Lucian Cook, Savills Research

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