MARKET IN MINUTES

Prime London residential markets

Summary

Prices across London's prime housing markets softened by a further 1.2% in the third quarter of 2017, leaving annual price growth at -4.6%. This means that prices are, on average, 8.1% below their 2014 peak.

Price adjustments have been greatest in central London, where prices are now 15.2% below their previous high.

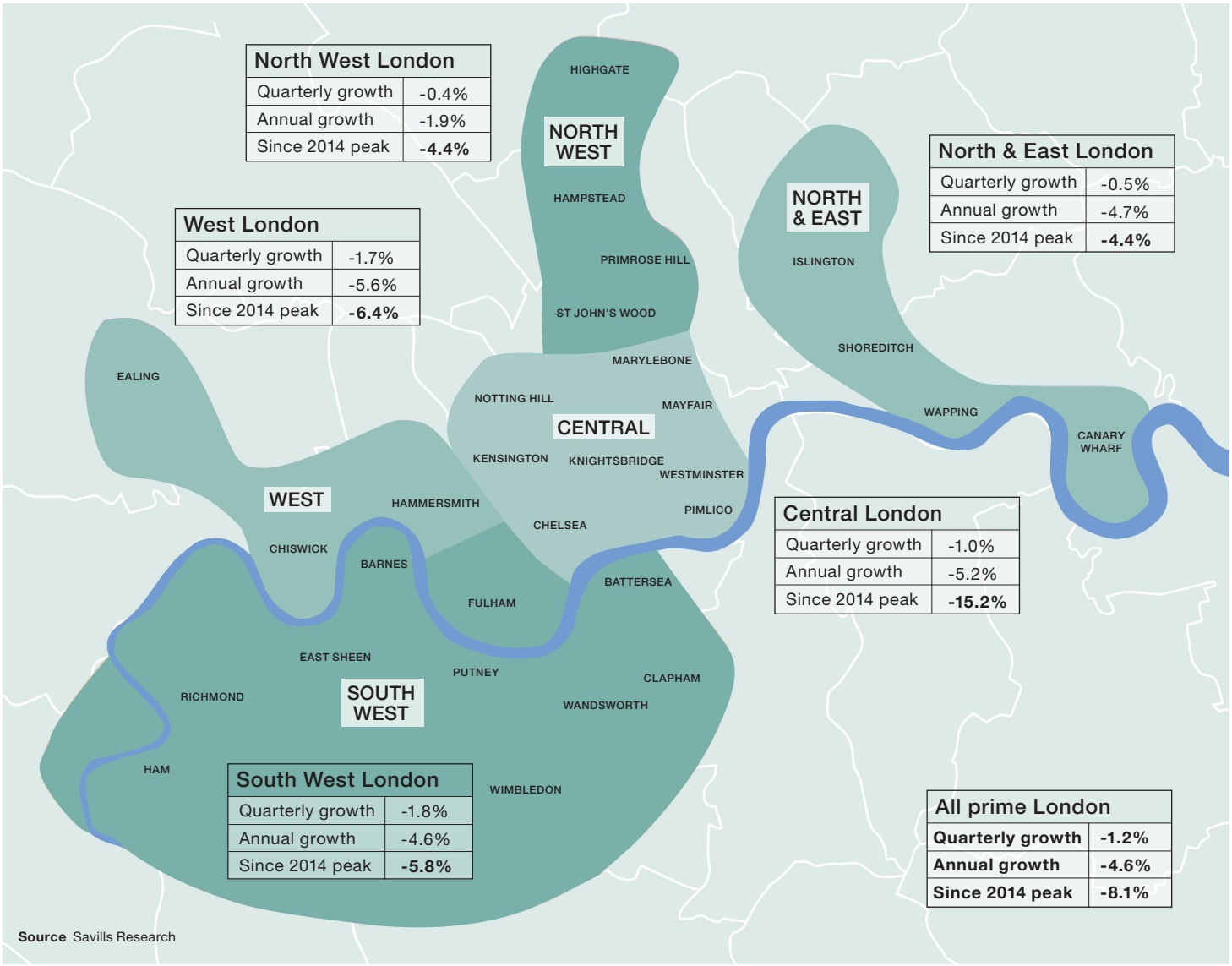
In other parts of the prime London market, price falls have been less severe, largely because these markets have been less exposed to the following three key factors: the higher rates of stamp duty introduced just under three years ago, the further stamp duty surcharge for additional homes that was brought in last year, and the increased exposure to other capital taxes for non-UK buyers.

Still, in the market for £2 million-plus properties across London, prices have fallen by 12.5%.

Fragile buyer sentiment, on the back of the uncertain political and economic outlook, has pushed annual rates of price growth to move into negative territory in the lower tiers of the prime market. This has been compounded by borrowers hitting up against the limits of mortgage regulation in many cases, which has also contributed to a dramatic slowdown in the rates of price growth in the capital's mainstream market.

-15.2%
Adjustment in prices of prime central London since their previous peak in 2014

Prime London Prices across prime London continue to soften, with the greatest adjustment in central London



Source Savills Research

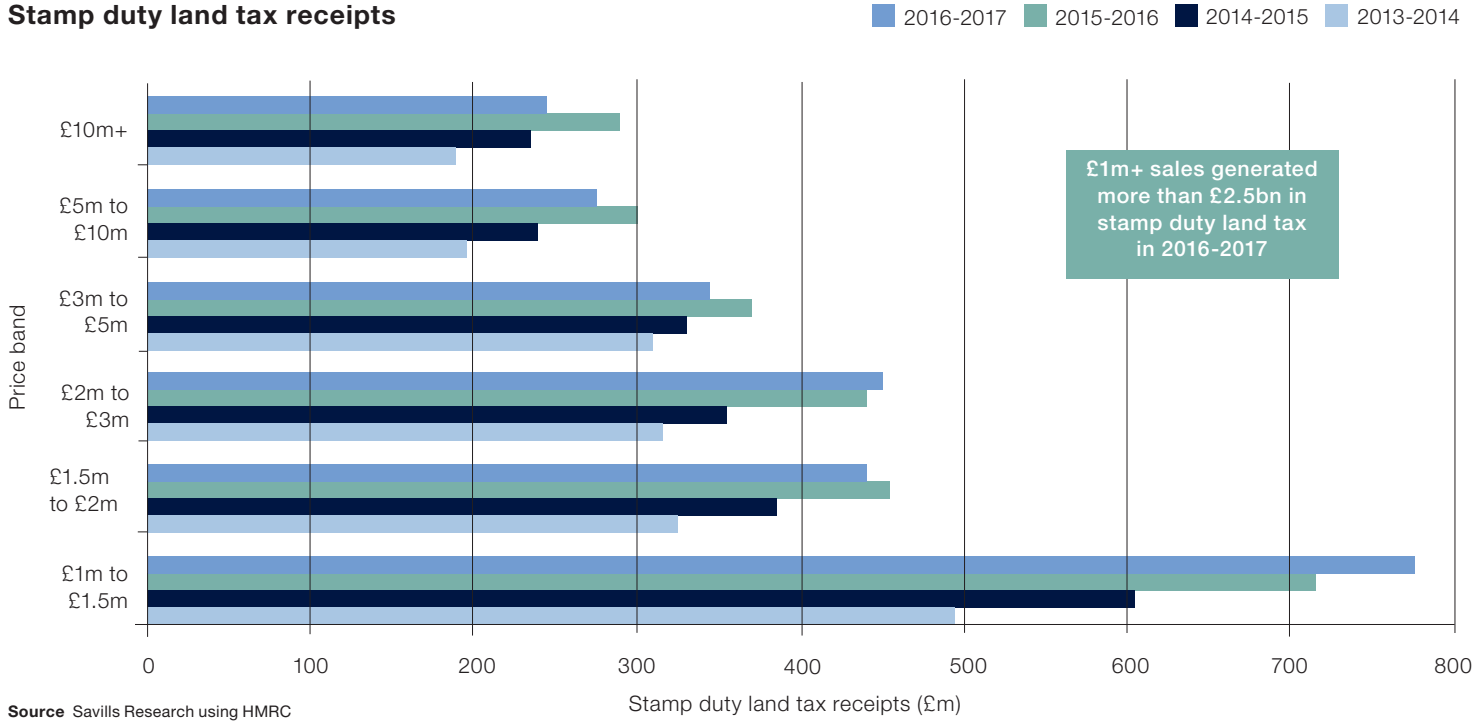
Stamp duty status

Despite a fall in transaction levels, the prime London market remains active and there remains demand for property which is increasingly priced according to current market conditions, especially where it is best in class. We do not expect to see a cut in stamp duty in the near future. Figures from HMRC show that, across the country, the number of £1 million+ transactions has changed little since 2014, with 17,700 sales in the year to the end of June. A relatively high proportion are paying the 3% stamp duty surcharge, indicating that receipts from this end of the market are unlikely to have fallen. Overall, stamp duty receipts from residential property have continued to rise, reaching £8.99bn in the last year.

88%

The increase in the price cutting in the £1 million+ London market between the first half of 2016 and 2017

Stamp duty land tax receipts



Source Savills Research using HMRC

Outlook

We expect the prime London market to remain price sensitive over the next 18 to 24 months, both during and in the wake of Brexit negotiations.

While we believe there is the prospect of a bounce in values as the uncertainty eventually clears, it will be more subdued than in previous cycles, given the changed tax environment, prospective increases in interest rates, and the effect of mortgage regulation in parts of the market.

Optimistic outlook Although initially subdued, there are signs of a longer-term recovery

Prime	2018	2019	2020	2021	2022	5-year compound growth
Central London	0.0%	2.0%	8.0%	5.5%	3.5%	20.3%
Other London	-2.0%	0.0%	5.0%	4.5%	2.5%	10.2%

Source Savills Research **Note** These forecasts apply to average prices in the secondhand market. New build values may not move at the same rate

Savills team

Please contact us for further information

Lucian Cook
Head of UK Residential Research
020 7016 3837
lcook@savills.com

Katy Warrick
Head of London Residential Research
020 7016 3884
kwarrick@savills.com

Gaby Day
Analyst, UK Residential Research
020 7299 3003
gday@savills.com

savills