Market in Minutes
Prime London Residential Markets

April 2012

SUMMARY

Prices reached 13% over their 2007 peak prior to the Budget. What next?

- After a six month lull in house price growth, in aggregate the prime residential markets of London showed much stronger price growth of 2.8% in the three months in the run up to the Budget.

- Across the market, sales over £5million were 20% up over the same period last year generating proceeds of some £940 million.

- In Fulham, the buyer profile has become progressively more international, particularly in the £2million plus market and annual price growth stands at over 15%.

TABLE 1
Price Movements to March 2012

	Prime Central London		Prime SW London	Prime North London	Prime East
	All	Ultra prime			
Quarterly	3.0%	4.4%	2.6%	3.3%	1.6%
Annual	11.4%	15.8%	8.2%	7.5%	3.8%
Since 07 Peak	20.4%	29.2%	11.3%	9.3%	3.9%

Table source: Savills Research

Pre Budget boost?

After a six month lull in house price growth, in aggregate the prime residential markets of London showed much stronger price growth of 2.8% in the three months in the run up to the Budget. Annual price growth of 8.6% means that prices are on average 13% above their peak.

Within the central London market stock has remained constrained, ending the quarter at just over half (54%) of the average levels seen at this time of the year in the preceding nine years.

This is reflected in a continuation of robust transaction levels. Across the market, sales over £5million were 20% up over the same period last year generating proceeds of some £940 million.

The resulting stock shortages have combined with strong overseas demand to push prices 20% above their 2007 peak and leave annual price growth in double digit territory. In the first thee months of the year, overseas buyers accounted for 62% of buyers in Central London, a figure which compares to 55% in the first quarter of 2011.

Such stock shortages have served to change the profile of demand in neighbouring Fulham, which increasingly has taken on the characteristics of central London, albeit at a lower price point.

The buyer profile has become progressively more international, particularly in the £2million plus market and annual price growth stands at over 15%.

Stock has been less constrained in the more domestic markets of South West and North London. Nonetheless as a whole these markets performed similarly strongly in the quarter, as accumulated equity continued to be recycled within these markets.

Though prices were effectively static in the markets of Putney and Chiswick this was more than offset elsewhere particularly given strong quarterly performance in the Wandsworth and Hampstead markets.

The East of City markets have been the slowest to recover post credit crunch; a trend which has continued over both the past quarter and year. On average values are now 3.9% above their peak with a noticeable spike in transactional activity during the first quarter of 2012.

Yet, this average figure masks a significant difference in performance between the markets of Canary Wharf and Wapping.

Across the former, which has absorbed significant quantities of new build stock developed in the run up to the credit crunch, prices are 7.1% higher than where they were five years ago.

By contrast in Wapping prices have risen by more than one fifth over the same period reflecting a less elastic stock profile of conversions.

Post Budget blues?

The Budget contained extensive measures to both raise Stamp Duty receipts and counteract Stamp Duty avoidance within the £2million+ markets.

They included an immediate rise in the standard rate of stamp duty to 7% and a 15% SDLT charge where properties are bought by "non natural persons" that include special purpose corporate vehicles.

It also included proposals, subject to consultation, for an annual levy where £2million+ properties are held in non natural ownership and a capital gains tax charge when properties are sold out of an offshore corporate structure.

The 15% charge and prospective annual levy are likely to result in the biggest changes to the way in which purchases are structured.

Central London is most likely to be directly affected. Land Registry sales indicate that 40% of £2million+ sales in England and Wales occur within the boroughs and Kensington & Chelsea and Westminster and the use of corporate ownership vehicles is by far the most common in this market.

Together these two measures are likely to curtail purchases of property by such vehicles, though where structures already exist the position is much less clear.

"Sales over £5million were 20% up over the same period last year generating proceeds of some £940 million"

Yolande Barnes, Savills Research

TABLE 2

PRIME MARKETS

Five-year forecast values

Forecasts	Change from peak to date	2012	2013	2014	2015	2016
Prime Central London	20.4%	3.0%	0.0%	5.0%	6.5%	6.5%

Data source: Savills Research

TABLE 3

Key statistics

Q1 2012	% overseas buyers	£ per square foot
Central London	59%	£1,764
Fulham	44%	£807
Remaining South West London	24%	£650

Table source: Savills Research

"The application of a 7% SDLT charge in an increased number of circumstances is unlikley to significantly unsettle the market"
Lucian Cook, Savills Research

Our view is that the application of a 7% SDLT charge in an increased number of circumstances is unlikely to significantly unsettle the market. An increase of between 2% is not considerable in the context of recent price movements.

Equally, the fundamental demand drivers of London as a global city were boosted by other measures in the Budget, such as lower rates of corporation tax, which significantly improve London's global competitiveness.

There is little doubt that these measures are likely to present challenges to a smooth recovery in the prime central London markets.

Supported by early evidence in the market, however, we believe they will not undermine market demand or bring a large amount of new stock to the market to the extent that they cause sudden deep price falls.

It is common for the prime central London markets to go through lulls in this stage of a market cycle and we believe that this is likely to be a catalyst for a period of relatively static prices, in line with our existing published forecasts.

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.
- Our view is that the new stamp duty charges are unlikely to significantly unsettle the market. However, it is common for the prime markets, central London in particular, to go through lulls in this stage of a market cycle.
- We believe that the stamp duty increases are likely to be a catalyst for a period of relatively static prices, in line with our published forecasts.
- Longer term growth prospects for prime central London are still strong as growth is forecast to resume later in 2013, driven by strong global city fundamentals and an improving domestic economy.

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