

Market in Minutes Prime London Residential Markets

April 2017



SUMMARY

Values in prime London look as though they're finding their level

FIGURE 1

Price movements in the prime London markets to Q1 2017

	Prime Central	Prime North West	Prime South West	Prime West	Prime North & East	All Prime London
Quarterly growth	-0.8%	0.5%	-0.2%	1.8%	-1.5%	-0.3%
Annual growth	-6.9%	-3.2%	-4.4%	-1.2%	-5.1%	-4.8%
Growth since 2014 peak	-13.2%	-4.2%	-3.5%	-3.1%	-3.2%	-6.1%
5-year growth	-1.9%	6.4%	18.4%	N/A	23.6%	12.5%

Source: Savills Research

→ **The market in context**

The rate of price falls across the prime London residential markets notably slowed in the first three months of this year. Could this be an early indication of values bottoming out?

Prices across all of prime London fell by an average of -0.3% in the first three months of the year, compared to -2.2% in the final quarter of 2016. This leaves values -6.1% below their 2014 peak.

Whilst stamp duty changes have certainly been a contributor to these price falls, there are other factors also affecting the prime London housing markets.

Central markets

Central London markets have also been affected by international buyers' increased exposure to capital gains tax and inheritance tax, leading to more reluctance in taking advantage of the weaker sterling.

The uncertainty surrounding the UK's vote to leave the EU has exacerbated the slow down resulting from tax changes. This has largely been driven by the unknown future, as opposed to any recognised weakening, of London's economy.

In these higher value markets, values fell by -0.8% over the quarter, much less than the falls of -4.8% seen in the previous six months. That leaves them -13.2% below their 2014 peak. Even at the very top end of the market, in the £10m+ range, prices appear to be stabilising.

Outer prime London

Following a fall of -2.3% in the fourth quarter of last year, prices in outer prime London have so far remained flat in 2017, meaning they are now -2.7% lower than their previous peak in 2014.

Despite low interest rates, these more domestic markets continue to be constrained by mortgage regulation. This means that those who need to borrow have begun to reach the limits of loan to income ratios

The underlying outcome, across all of prime London, is that sellers have had to adjust their expectations. There is evidence that the resulting price cuts are beginning to coax buyers back into the market, although it remains price sensitive.

Transactions

Transactions of property worth over £1million in prime central London

picked up in the final four months of 2016 and, so far in 2017 have been on a par with the same period in 2015, according to LonRes. March 2017 has seen the highest monthly transaction figure since March last year, when there was a surge in activity to beat stamp duty changes. ■

OUTLOOK

Prices across the prime London housing markets appear to have adjusted to increased stamp duty rates. However, we are now expecting values to remain broadly flat for the next couple of years, as the market continues to adapt to these higher transactional costs.

Now that Article 50 has been triggered, general uncertainty around the impact of the UK leaving the EU is expected to mean the market is exposed to short term fluctuations in sentiment over this period, in line with the news agenda and negotiations going forward.

London's position as a global financial centre is critical to the longer term growth prospects in the capital. We are assuming that while some city job losses are to be expected, London will retain its current position. In addition, the capital's evolution as a tech city is likely to support longer term growth prospects.

FIGURE 2

Prime London capital values forecast

	HISTORICAL ANNUAL			FORECAST ANNUAL					5-YEAR FORECAST
	2014	2015	2016	2017	2018	2019	2020	2021	2017-2021
Prime Central London	-0.4%	-3.3%	-6.9%	0.0%	0.0%	8.0%	5.0%	6.5%	21%
Other Prime London	3.3%	2.3%	-4.0%	-1.0%	0.0%	6.0%	4.0%	5.0%	15%

Source: Savills Research

*NB: these forecasts apply to average prices in the second hand market. New build values may not move at the same rate

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