Market in minutes

Prime residential markets in London and GB

Prime London values: rate of fall slowing

■ The rate at which capital values in central London are falling has slowed significantly in the first quarter of 2009 suggesting that the worst of the falls may be over. Average values fell by -4.2% in the quarter to March 2009, half the rate of fall seen in the final quarter of 2008.

■ We have not yet reached the bottom of the market, but buyer registrations in the prime London markets as a whole have doubled over the past quarter but, more importantly, deals agreed this month have risen to levels not seen since March 2008. Deals are now settling at -25% to -30% off peak, with a shortage of stock beginning to manifest, demonstrating that falls of this magnitude are sufficient to motivate need-driven domestic buyers.

■ We expect the prime central London market to cease falling by the end of 2009 as investor demand starts to revive against still-low levels of stock. Any growth in values is likely to be suppressed until there is a return to confidence in the UK economy, but we stand by our forecast that total falls from peak will not exceed -30% in prime central London and -25% in the prime regions.

■ Needs-driven, domestic purchasers are beginning to recognise value in areas which have seen significant price falls e.g. SW London values fell by just -2.3% in the first quarter, having already reduced by -25.8% from peak. Purchasers are making rational rather than aspirational decisions with capped budgets and increased focus on value for money.

Q1 2009 Prime indices results

	Q1 2009	Year on year	From peak
Capital values			
Prime central London	-4.2%	-20.5%	-23.3%
Prime SW London	-2.3%	-24.5%	-25.8%
Prime regional markets	-3.0%	-18.5%	-19.3%
Rental values			
Prime central London	-4.4%	-10.4%	-11.7%
Prime SW London	-2.5%	-15.0%	-15.0%
Yields	**Gross**	**Net**	
Prime Central London	4.5%	2.9%	

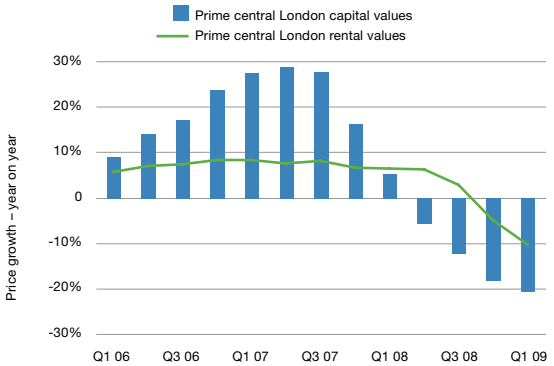
Source: Savills Research
Prime Central London = Residential areas of Knightsbridge, Chelsea, Mayfair, Belgravia, Holland Park, Notting Hill, Kensington, St John's Wood, Regents Park and Hampstead.
SW London = Residential areas of Putney, Fulham, Wandsworth, Richmond and Barnes.
Prime regional markets = Prime property and country houses across GB.

Prime London rental market

■ Rental values across prime central London fell by -4.4% over the first quarter of 2009 taking rents down -11.7% from their peak. The corporate lettings sector continues to be hit most strongly with a quarterly fall of -6.6% in rents in the core area of Knightsbridge, Chelsea, Mayfair and Belgravia. Average rents in this area are now down -15.6% from their peak.

■ Forecasts for recovery in the economy, and specifically employment prospects in the financial and business services sector on which the prime London rental market is reliant, have become even more bearish in recent months. Consequently, we expect rents to fall by a total of -10% over the year.

Economic and employment outlook delaying recovery



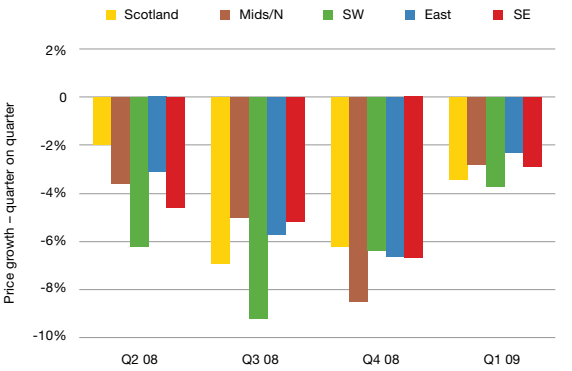
Source: Savills Research

Regional prime property

■ In a similar vein to the prime London markets, price falls on prime property and country houses in the regions slowed significantly during in the first quarter of 2009. Values fell by -3% in Q1 2009 (compared with -6.6% in the final quarter of 2008) resulting in total price falls of -19.3% from the peak of September 2007.

■ Just under a third (31%) of properties in our index recorded no change in value in the first quarter. Some 4% reported slight increases. As with London, we expect overall falls to continue each quarter over the remainder of 2009 although the worst of the falls do seem to be over. With access to finance curtailed, confidence low and employment prospects poor, transaction levels will remain low and a price recovery is still some way off.

Falls slowing in all regions



Source: Savills Research

Summary and outlook

■ The recurring theme across the prime markets is that the end of the worst price falls is in sight. Buyer interest is beginning to emerge and an increase in applicant numbers is reported by agents. This has yet to translate into increased transaction volumes though. Turnover remains significantly curtailed.

■ We are by no means out of the woods yet. Further deterioration in the outlook for the economy, both nationally and internationally, along with the prospect of further widespread job losses means the short to medium term outlook for the economy has worsened.

■ We stand by the forecasts for total price falls that have previously been published for the prime London and regional markets (-30% from peak in prime central London and -25% in prime regional markets). The changed outlook for the economy affects the length of time for which the market will remain suppressed and hence delays of any recovery in values.

"The recurring theme across the prime markets is that the end of the worst price falls is in sight."

■ The worsening economic climate will have the effect of pushing out the timing of recovery of prime property, by around 6 months in central London and perhaps by 12 months or more in the regions. We expect values in prime central London to begin to pick up in late 2010, followed by the regions later in 2011/12.

Further information on the outlook for the prime and UK housing markets from Savills Research can be found in 'Spotlight on Housing Market Recovery' at www.savills.co.uk/research

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