

Market in minutes

Prime residential markets in London and GB

Key findings and outlook

■ The heat is beginning to come out of the prime markets of London, particularly in those areas which led the recovery in 2009.

■ Caps on bonus payments, further taxes, the forthcoming election and mixed, but primarily gloomy prospects for the economy combined will restrict transaction levels and value growth over the remainder of the year.

■ We expect -1% falls in central London values in 2010, although this market will be less exposed than the

mainstream given the continued prospect of overseas demand and stock constraints.

■ Stronger rental growth should begin to push out yields by the end of the year which may further encourage investors to central London, particularly if the dollar/sterling exchange rate remains low.

■ If introduced, the new 5% stamp duty tax on properties of more than £1 million may provide a short boost to the central London market over 2010 and into 2011 as buyers seek to complete before the introduction in April 2011. The effects will be short term, however, and may slightly suppress house price growth over future years.

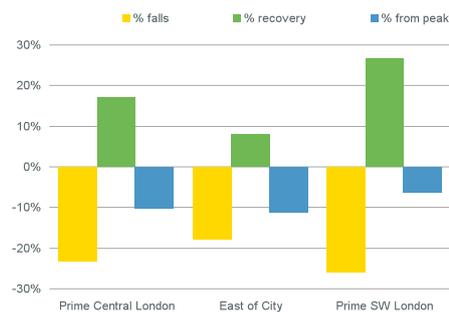
Slowdown in prime London growth

■ The first quarter of 2010 saw growth of 3.0% in the value of prime residential properties in central London. This means values are 17% higher than 12 months ago and just -10% from their peak of September 2007. However, the rate of growth has started to slow as new demand has begun to weaken against slightly rising levels of supply.

■ Values of flats grew more strongly over the first quarter, boosted by international buyers seeking real estate investment opportunities within London to capitalise on the opportunities presented by continued weakness in sterling. This same weakness in sterling has discouraged international vendors from selling up and has limited any increase in stock levels which might otherwise have been expected in improved market conditions. As such, values of flats in prime central London rose by 3.9% over the first quarter. In contrast, the house market, characterised by occupational demand often for use as a second home, rose by just 2.0%.

■ In south west London, which led the upturn over 2009 as needs-based domestic buyers returned to the market, growth over the first quarter slowed to 4.4% from 5.2% in

London recovery picture



Source: Savills Research

the preceding quarter. Much of this increase was fuelled by stronger growth in locations which were late to rise last year, i.e. Putney and Richmond whereas Fulham, Wandsworth and Barnes which were particularly strong over 2009 saw growth more on a par with prime central London (3.2% over the first quarter). Much lower bonus payments and lower underlying demand from overseas buyers in this market, coupled with less constrained levels of supply suggest, the heat is likely to continue to come out of this local market over the remainder of 2010.

Pick up in prime London rents

■ Supply levels of rental properties in prime central London continued to fall over the first quarter of 2010 as temporary landlords become sellers, returning their properties to the sales market. Low levels of supply, along with stronger corporate demand has pushed up rents in

prime central London by 2.8% in the first quarter of 2010 taking rental values 5.1% higher over the last 12 months.

■ Rental growth in prime markets of central London is heavily dependent on prospects for employment in the financial and business services sector. Latest estimates from Oxford Economics for central London suggest a ►

Savills
Research

savills.co.uk/research

savills

► further 6,000 job losses in this sector over 2010, but this is a significant improvement on the 21,000 losses which were being predicted 6 months ago. Employment prospects are expected to be much more favourable in 2011 and we are already seeing increased levels of corporate demand in the market.

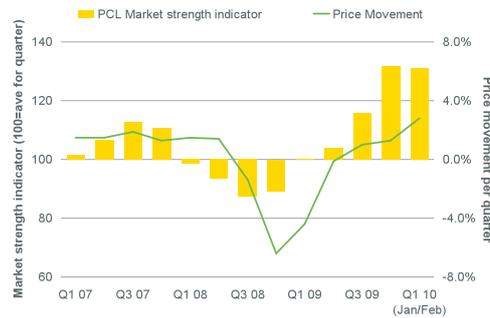
■ Indeed, the Savills market strength indicator (comparing viewings, applicants, renewals and deals to numbers of properties available to let), highlights a supply/demand

Q1 2010 Prime indices results

	Q1 2010	Yr on Yr	% recovery	% from peak values
Capital values				
Prime Central London	3.0%	16.9%	16.9%	-10.1%
SW London	4.4%	26.6%	26.6%	-6.1%
Prime regional markets	2.0%	6.9%	6.9%	-13.7%
Rental values				
Prime Central London	2.8%	5.1%	5.2%	-7.1%
Prime SW London	4.4%	3.7%	7.9%	-11.8%
Yields				
	Gross	Net		
Prime Central London	4.2%	2.7%		

Source: Savills

Stronger demand and reduced supply pushing up rents



Source: Savills Research

imbalance in Central London that has caused rental values to pick up over the last 9 months. We would expect some growth in rents to continue throughout 2010, gathering momentum once the employment market turns positive into 2011.

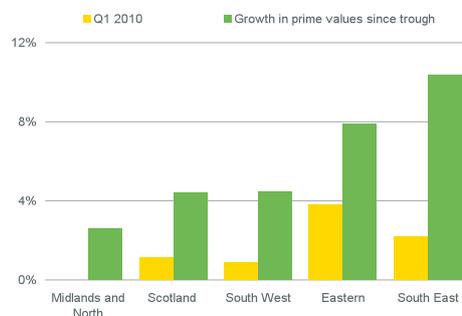
■ Comparable levels of rental and capital growth over the first quarter saw yields in central London stabilise at 4.2% gross. Stronger rental growth over 2010 compared to a -1% fall in capital values by the year end is expected to push out yields slightly by the year end. This in turn should attract more investors, perhaps from the Americas and South East Asia, assuming the dollar/sterling exchange rate remains low.

Prime regional property

■ Prime regional property prices grew by 2% over the first quarter of 2010, with growth, whilst positive, continuing to lag behind that of prime central London. Since values bottomed out in the regions in the first half of 2009, the South East has led the recovery with a 10.4% upturn in values. The ripple effect out from London has continued into 2010 with the Eastern region reporting the highest growth in the first quarter (3.8%).

■ Demand indicators (applicants, viewings, deals) remain relatively subdued in the more Northern and Western regions which saw the lowest (or no) growth in the first quarter.

South East leading the recovery in the regions



Source: Savills Research

For further information please contact:



Lucian Cook
 Director
 020 7016 3837
 lcook@savills.com



Anna Zaccaria
 Associate Director
 +44 (0) 20 7409 8827
 azaccaria@savills.com



Yolande Barnes
 Director
 020 7409 8899
 ybarnes@savills.com

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows and now has over 250 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. A unique combination of sector knowledge and entrepreneurial flair gives clients access to real estate expertise of the highest calibre. We are regarded as an innovative thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations and individuals with whom we share a common goal. Savills is synonymous with a high quality service offering and a premium brand, takes a long term view to real estate and invests in strategic relationships.

This report is for general informative purposes only. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability for any loss or damage, of whatsoever nature, arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

