Market in minutes

Prime residential markets in London and GB

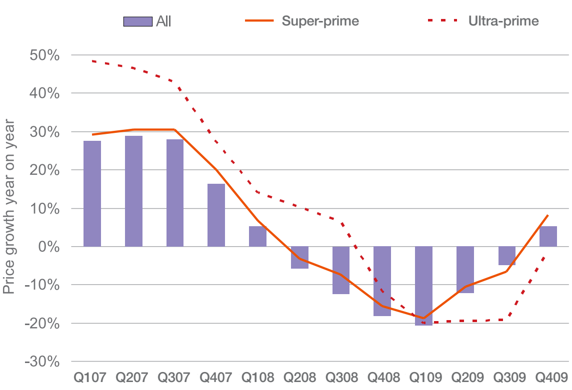
Prime London

■ Overall values in prime central London residential markets rose by 4.6% in the last three months of 2009 as transactional activity, which built steadily over the first nine months of the year, remained relatively buoyant. Overall this meant that prices rose by 8.9% over the course of the year, fuelled by demand from overseas investment buyers chasing stock levels that remained 20% to 30% below their medium term average.

■ Although the rate of price growth fell in the fourth quarter, key demand indicators including the number of applicants, viewings and deals agreed have all been stronger in the markets of prime south west London, where domestic buyers seeking to acquire their main residence have been quick to return to the market. As a result prices increased by some 18.3% over the course of 2009.

■ The ultra prime markets of London did not see such a strong improvement in market conditions, meaning that prices remained 1.3% lower at the beginning of 2010 compared to a year earlier. Generally, global ultra high net individuals have been slower to return to a market more or less dominated by discretionary second home acquisitions, although signs of improved market conditions did emerge in the last quarter, resulting in price growth of 3.2% over that period.

Graph 1
Annual growth by type



Source: *Savills Research*

Prime London Rents

■ For the second quarter running prime central London rental values showed modest levels of growth, 1.3% in Q409, with a similar picture in south west London.

■ The markets to the east of the City, which are heavily dependent on demand from those employed in the financial and business services sector, remain less active, although some stability returned to rental values after falls of -22.8% between Q109 and Q309.

■ With capital growth outstripping rental improvements, prime central London residential yields fell over the course of the year to 4.6% on flats and 3.9% on houses, down from 4.8% and 4.3% at the beginning of the year.

Table 1
Q4 2009 Prime London indices results

	Q4 09	Year on Year	From peak
Capital values			
Prime Central London	4.6%	8.9%	-12.8%
Prime SW London	4.9%	18.3%	-10.2%
Prime regional markets	2.5%	1.3%	-15.7%
Rental values			
Prime Central London	1.3%	-2.1%	-9.6%
Prime SW London	2.0%	-2.6%	-11%
Yields	**Gross**	**Net**	
Prime Central London	4.2%	2.7%	

Source: Savills

Prime Central London: Knightsbridge, Chelsea, Mayfair, Belgravia, Holland Park, Notting Hill, Kensington, St Johns Wood, Regents Park and Hampstead.
Prime SW London: Putney, Fulham, Wandsworth, Richmond and Barnes.
Prime regional markets: Prime property and country houses across UK.

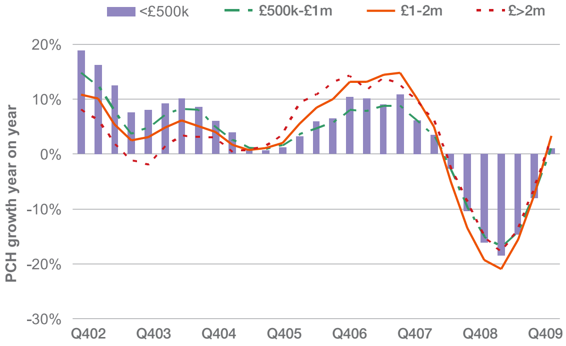
Prime Regional Property

■ Following the downturn of 2008, prime regional house prices showed modest growth for the first time in 18 months at the end of December and transaction levels have improved significantly.

■ In the last quarter of 2009 prices for prime regional property grew by 2.5%, leaving values 1.3% higher as we enter 2010 compared to 12 months ago. That price growth, while unexpected, was someway short of that seen in both the prime markets of London and the mainstream markets of the UK as a whole, meaning that on average prices remained some 15.7% below their peak at the beginning of 2010.

■ Over 2009 the highest growth was seen in the markets of the South East which have most strongly benefited from the ripple effect out from London. Prime property prices rose by 4.6% in the region over the year and by 6% in the £1m to £2m price bracket where stock has been most constrained.

Graph 2
Annual growth by value



Source: *Savills Research*

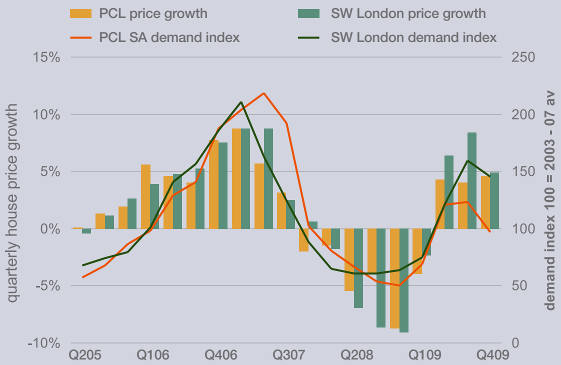
Summary and Outlook

■ The prime markets of London, particularly the south west inner suburbs, were surprisingly strong in 2009 given the extent and speed of the previous price falls of 2008. Since the bottom of the market in March 2009, prices in prime central London and prime south west London increased by 13.4% and 21% respectively. However, on average this still leaves prices in these markets, between 10.2% and 12.8% below their peak.

■ In 2010 the prime London markets will have to contend with the continuation of relatively weak economic conditions, the uncertainty that surrounds a general election and the prospect that improvements in earnings and the purchasing power of bonuses will be tempered by increased taxation.

■ These factors have already contributed to the fact that, while applicant numbers have improved in contrast to other key market indicators, they remain below par in central London. Against the context of gradually increasing stock levels, we envisage that prices are likely to soften albeit marginally over the course of 2010.

Graph 3
London demand index



Source: *Savills Research*

■ We expect similar drivers in the prime regional markets, although less dramatic post downturn price growth should protect this market from the risks of a potential double dip and result in less volatility than is expected in the mainstream market. ■

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