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Briefing Note
Will currency movement re-boot Prime Central London?

February 2015

The costs of buying a property in prime central London for the international buyer are impacted by currency fluctuations

Currency fluctuations have always impacted the perceived value to an international buyer of a home in prime central London. Among the big winners of recent events, like US dollar appreciation and euro wobbles, are non sterling Swiss, Indian and Chinese buyers, while Russian buyers are the clear losers, though the value of any assets held will have appreciated significantly relative to the rouble.

Perhaps more importantly, with so many international currencies, most notably the HK dollar, pegged to the US dollar, US buyers are in a strong position to buy in London now because sterling has recently depreciated against this currency.

The combined effects of this and recent price falls in prime central London mean that the costs of buying have dropped by 10% since last September for Americans and other dollar buyers.

Buyers – who wins, who loses?

In the last four months, a house in the core, prime areas of central London has become 16% cheaper for a Swiss buyer converting francs but a staggering 47% more expensive for a Russian buyer with only roubles to spend.

Sterling buyers have seen prices reduce by -4.2% over the same period due to a combination of higher stamp duty rates for high value property announced in the Autumn Statement and some of the froth coming off the market. However, the appreciation of a wide variety of currencies against sterling means that a large number of overseas buyers have an additional competitive advantage compared to just four months ago.

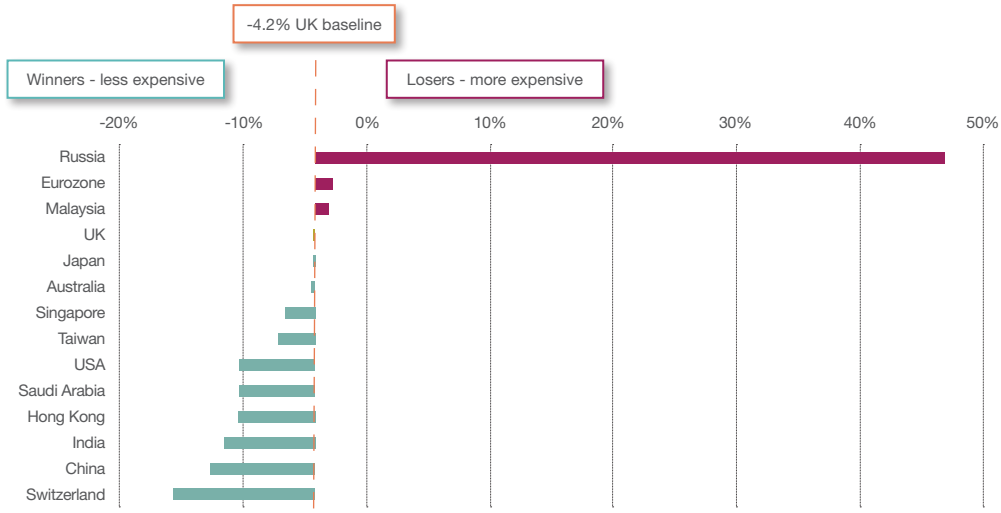
Significantly, the many international buyers who transact in US dollars will now be able to buy at a discount and this advantage looks set to be maintained or improved upon.

Costs of buying in PCL have fallen 10% for Americans and other dollar buyers since Sept 2014

Costs for a Russian buyer with only roubles to spend have increased by 47% over the same period

GRAPH 1

Impact of falling sterling and falling property values on buyers
Since September 2014



Source: Savills World Research

Value gains for owners

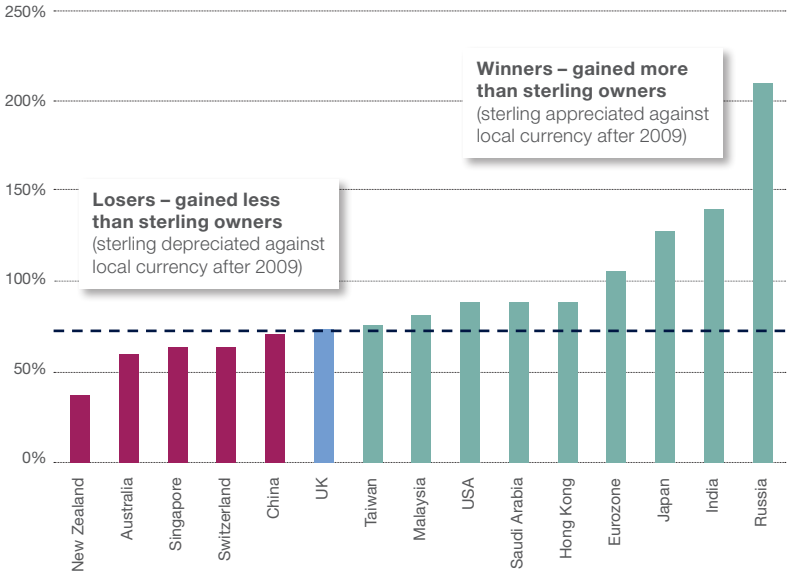
The other side to this story is the impact on owners. Prime central London residential prices have risen by 74% in sterling terms since March 2009 to which many international owners can add an additional bonus of sterling appreciation against their own currency.

For example, Russian owners of London property have gained an additional 178% in current rouble terms by holding a sterling-denominated asset for the last six years. Other winning owners over the same period have included Indians, South Africans, Japanese and Europeans at additional currency gains of between 36% and 54%.

Owners whose home currency has appreciated relative to sterling have still gained something, thanks to the strong performance of the prime central London residential market, but not by as much as if this appreciation had occurred in their home countries: New Zealand dollar owners have seen just +37% (against sterling owners 74%), Australian dollar +60% and Swiss franc owners are at +64%.

GRAPH 2

Combined impact of price rises and currency movement on owners March 2009 to December 2014



Source: Savills World Research

OUTLOOK

Fully valued but not overvalued

We are likely to see a change in the combination of buyer nationalities in the small and rarefied prime central London market rather than an increase in the proportion of overseas buyers overall. The strength of the UK and London economy was already tending to increase the proportion of domestic buyers in London, particularly in lower price bands, and we expect UK buyer market share to continue to rise.

Where does that leave prime London values in the long term? Prime central London now looks fully valued but certainly not overvalued on the world stage. Graph 2 shows the value of prime central London in various currency terms relative to its trough value of 2009.

In sterling terms, values have risen 74% since March 2009. Many major currency movements over this longer term have not deviated much from sterling (US dollar, Hong Kong dollar, China's renminbi) over this time. The notable exceptions are the euro, Japanese yen, South African rand, Indian rupee and Russian rouble. For these buyers, prime central London property has certainly turned out to be the safe haven store of wealth that many of these buyers in 2009 intended it to be.

Only New Zealanders, Swiss and Australians would have been significantly better off investing in their own currencies over this period. In historical terms, prime central London looks cheaper to these nationalities than to others so there may be relatively more buying activity from these groups in the near future. London property is also becoming more buyable in US dollar terms and will probably continue to do so.

If it does, the mix of properties traded in London could vary from the past six years as the preferences of these buyers are different to the Asian-dominated markets. Asians and Middle Easterners may still be expected to be active in prime central London as current pricing is neither particularly advantageous nor disadvantageous to these currency groups in the context of recent history.

The fact that price growth has now slowed will allay fears that this market is becoming overheated. We expect further marginal falls in 2015 followed by modest growth driven by the fundamentals of London's economy, business and investing environment.

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