

# Market in Minutes

## Prime London Residential Markets

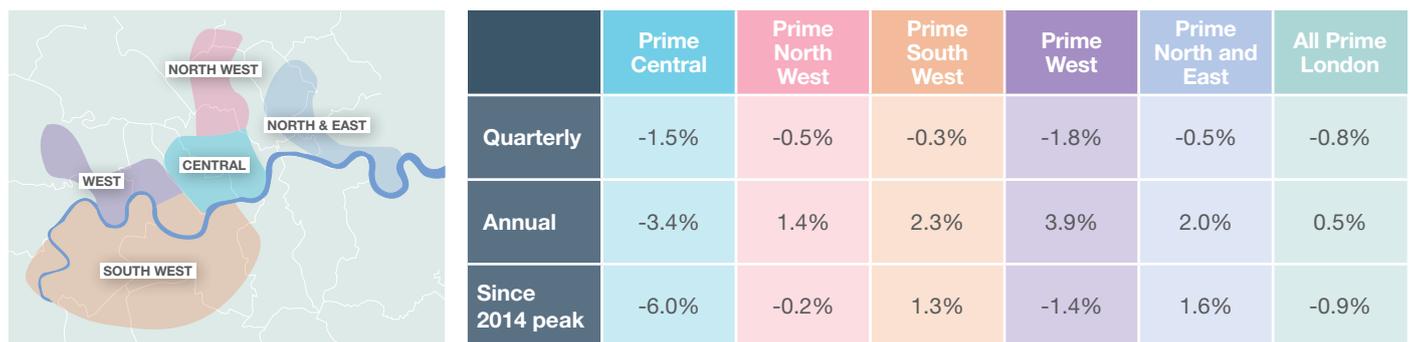
January 2016



### SUMMARY

Taxation continues to weigh down on prices

FIGURE 1  
Price movements in prime markets to Q4 2015



Source: Savills Research

→ **Recent performance**

Prime London house prices fell by an average of -0.8% in the final quarter of 2015 to leave them a marginal 0.5% above the levels seen at the beginning of the year.

However, this marginally positive average annual house price growth has essentially been attributable to the performance of property below £2m, which recorded growth of 2.2% in 2015.

Over the course of the year prices fell in all of the submarkets above this price level in the capital. Values in the market between £2m and £5m are 3.3% below their 2014 peak, while those over £5m are down by 6.4%.

Accordingly price adjustments have been the greatest in the prime markets of central London, where values are down 6.0% since their 2014 peak, with the highest value submarkets of Knightsbridge, Belgravia and Mayfair down by -7.3%.

**Taxation**

This reflects a continued adjustment to a less hospitable tax regime and, in particular, successive increases in stamp duty rates, the latest incarnation of which is a 3% stamp duty surcharge for 'additional homes' (which include investment properties and second homes) that is due to come into effect on 1 April 2016.

A property priced at £2m caught by this surcharge would come with a stamp duty bill of £213,750. More domestic markets are also being constrained by mortgage

regulation, which is limiting the amount people can borrow against their earnings, given the impact of lenders requirements to stress test affordability.

**Market activity**

While the prime London market remains price sensitive, data from LonRes indicates transaction levels of £2m+ central London stock were 76% of the levels seen in 2014. Between £1m and £2m they were within 9% of their 2014 levels. This suggests that where stock is priced appropriately there is still a market, particularly for best in class properties.

We would expect a slight pick up in transaction levels in the first quarter of 2016, as investors and second home buyers look to complete transactions before the 1 April deadline. ■

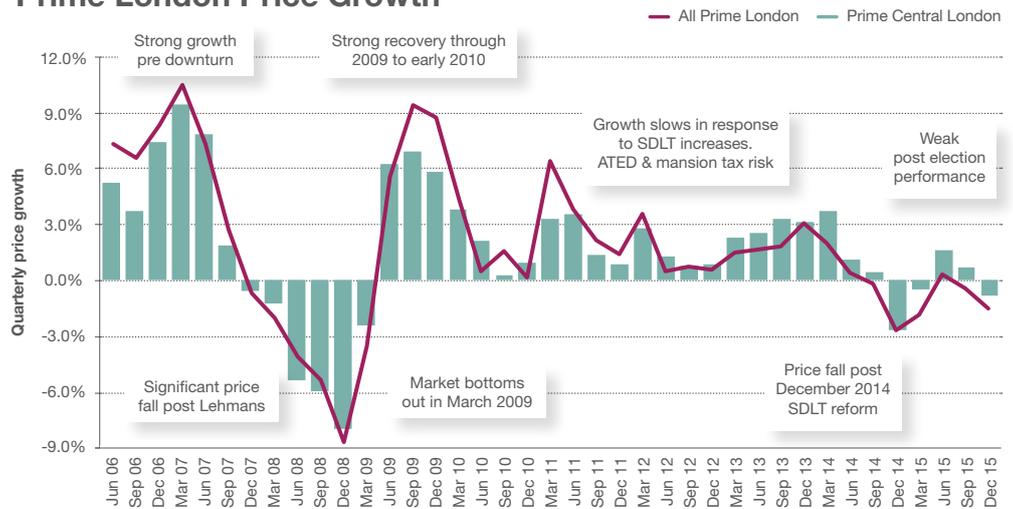
**OUTLOOK**

Since the credit crunch, it has been common practice to index price growth in prime London to the previous peak of 2007/8. It is now clear that 2014 is the new 'peak' reference point for a market that has continued to adjust to higher taxation, introduced at a time when the market was already looking fully priced.

We believe the market is at a similar stage in the cycle to 2002 to 2005 when over a three-and-a-half year period prices in prime (central) London increased by just 5%.

With prices having seen no net growth since the first quarter of 2014, we expect prime London values to remain broadly flat through 2016 and most of 2017. Thereafter, we would expect a gradual return to trend rates of price growth.

FIGURE 2 Prime London Price Growth



Source: Savills Research

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