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Market in Minutes
Prime London Residential Markets

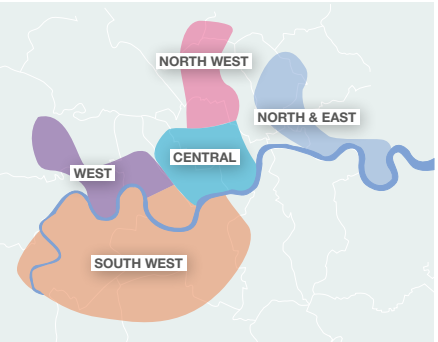
Q1 2016

SUMMARY

Prime London markets are still adjusting to tax changes

FIGURE 1

Price movements in London's prime markets to Q1 2016



	Prime Central	Prime North West	Prime South West	Prime West	Prime North and East	All Prime London
Quarterly	-0.8%	-0.8%	0.0%	-0.1%	0.1%	-0.3%
Annual	-2.3%	1.2%	2.8%	4.2%	2.6%	1.1%
Since 2014 Peak	-6.7%	-1.0%	1.3%	-1.5%	1.8%	-1.2%
Past 5 Years	17.6%	20.5%	34.3%	N/A	37.2%	28.8%

Source: Savills Research

Prices of prime London residential properties fell marginally in the first quarter of 2016, as uncertainty regarding the global and domestic economic outlook and the EU referendum largely offset any investor or second home buyer rush to beat the stamp duty surcharge on additional homes payable from April 1st.

Unlike other parts of the London housing market, the prime markets remain fairly price sensitive and increasingly dominated by needs based buyers.

Values across the whole of prime London slipped by an average of -0.3% in the three months to the end of March, though there remains a distinction between the higher value, discretionary prime central London markets and the more domestic, outer prime London locations.

In the most expensive markets of prime central London prices fell by -0.8% in the first quarter. This leaves values at the very top end of the market a total of -6.7% below their 2014 peak, when an adjustment was triggered by the Chancellor's announcement of new stamp duty rates for higher value properties in his autumn statement.

Unsurprisingly, transaction levels of £1m+ property in the prime central London market were markedly higher than in the first three months of 2015, when the market was hit by uncertainty regarding the General Election. However, according to market data from LonRes, volumes were still 10% below levels seen in the first quarter of 2014.

In this area, the only submarket showing positive annual price growth is Marylebone (1.7%), reflecting a longer term change in perception among prime buyers, demonstrated by the 25.1% five year price growth and 118.9% over ten years.

By contrast, in the less expensive and more domestic outer prime London housing markets, which run from Richmond and Wimbledon, through Battersea and Wandsworth in the south and west, and Islington, Wapping and Canary Wharf in the north and east, prices remained flat in the first quarter of the year. This means they continue to show low single digit annual house price growth, which has been underpinned by the performance of 1 to 3 bedroom properties.

In these areas the submarkets of Barnes, Ealing and Wapping continued to show modest quarterly price growth and consequently some of the most robust annual growth. By contrast, Fulham which has seen very strong price growth of 41% over the past five years, has seen prices fall back slightly in the last year. Similarly, second hand stock in Canary Wharf has become more price sensitive in the face of significant competition from a growing pipeline of new build stock.

Though the prime London new build market remains sensitive to price, activity levels for well located, good quality product have been encouraging in the first part of 2016, on the back of increased domestic buyer activity.

OUTLOOK

The recent Budget statement confirmed that the stamp duty take from the top end of the market has risen following the reforms of December 2014, despite lower transactional activity. This effectively signals that this policy is here to stay and will continue to influence buying and selling decisions and assessment of value in the medium term.

Given historic levels of high price growth, the increased tax burden and political uncertainty stemming from the pending mayoral election and EU referendum, our view is that we are unlikely see any price growth over the course of 2016 in prime central London and just 2% for the other prime London markets.

Furthermore, a weakening domestic and global economic outlook means that any recovery to historic trend rates of house price growth is likely to be gradual.

FIGURE 2

Prime markets: Five-year forecast values

	2016	2017	2018	2019	2020	5-year
Central London	0.0%	2.0%	5.0%	6.5%	6.5%	21.5%
Outer London	2.0%	2.0%	4.0%	4.0%	5.0%	18.2%

Source: Savills Research *NB: these forecasts apply to average prices in the second hand market. New build values may not move at the same rate

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