



Savills World Research
UK Residential

Spotlight **Prime London Residential Markets**

Autumn 2015

Where next?

The destinations crossing
London's prime thresholds



**MARKET
TRENDS**

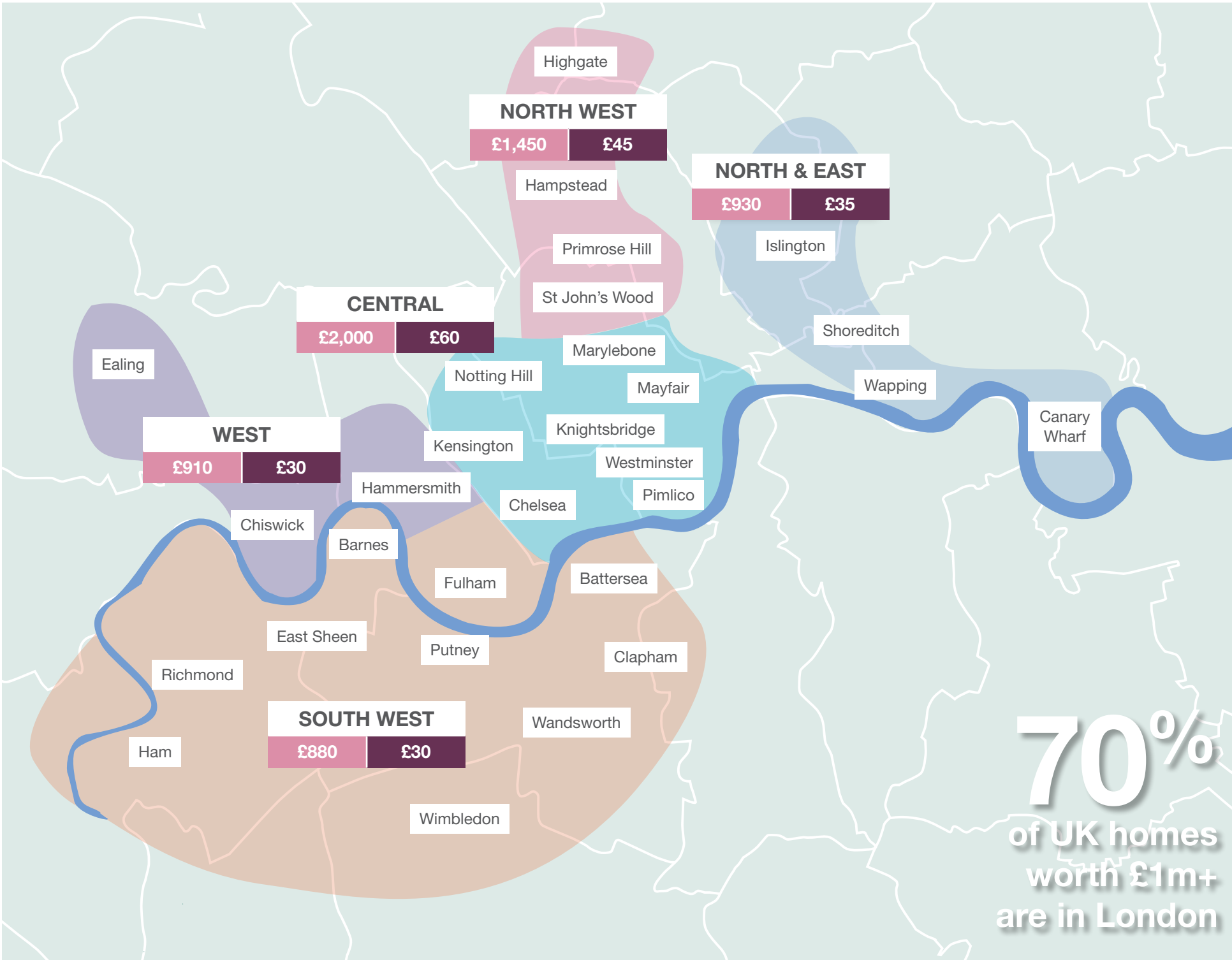
A shift in
emphasis

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Introduction

PRIME LONDON MARKETS

FIGURE 1 Prime London's five regions From Ealing to Canary Wharf, from Highgate to Wimbledon



Source: Savills Research As at Q3 2015, based on prime second hand sales

This document is about **prime** London markets, not about London markets. The two are often mixed up but the impact of wealthy buyers in Pimlico and Putney is clearly far more significant than in Peckham and Penge.

Lucian Cook shows (p.10) that 70% of the UK's homes worth £1m or more are in London, yet they constitute just 8% of all London households and 10% of all privately owned housing stock in the capital. So, for example, prime overseas buyers, while significant in terms of money and volume in central areas, have minimal impact on the average London house prices.

This publication is nevertheless looking at a heavily invested, global capital market in a world city. The growth in the number of high net worth individuals in the UK has increased purchasing power and numbers wanting to locate themselves in the centre of one of the globe's most exciting and desirable cities.

Tidemark of expansion

The consequence of this has been an expansion of areas which we now call prime from the extremely small, core markets of the 1980s. Our map (p.6 & 7) illustrates the latest high tidemark of this expansion.

If the prime London market has now reached a high plateau, the boundaries of locations where house prices average £1m+ may remain unbroken for a period. Instead, the important trend to look out for is a shift from 'old prime' to 'new prime' areas as the source of London's wealth shifts from 'baby boomers' in financial services to the 'Millennial' generation in Tech. Sophie Chick shows us some of the emerging prime locations of the digital age – and points to the possibility of an era with a more mixed and diverse range of prime buyers across London than have been seen in the past.



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Rising property values have resulted in a number of new areas crossing over into prime thresholds
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Demand for prime property in London is driven by both overseas and domestic wealth
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Despite short term challenges, the fundamentals of wealth generation support medium term price growth
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Market trends

A SHIFT IN EMPHASIS

Fresh patterns of price growth are establishing themselves across the prime London market



“We are increasingly seeing new tech businesses as wealth creators”

Sophie Chick, Savills Research

Price growth at the top end of the prime London housing market outpaced all other market segments for the three years post credit crunch, but since December 2011 the lower value parts of the prime market have shown the strongest price growth, reflecting changing patterns of demand.

Our prime London indices show that the various tiers of the market have performed quite differently at particular points over the past ten years, with corresponding shifts in the geographical patterns of growth. In the run up to the 2007/08 downturn, and immediately after, the highest value markets performed the most strongly. However, since December 2011 the trend has reversed, with lower value sub-markets showing higher growth.

Price movements

The most expensive markets have been most affected by the changing fiscal backdrop, notably the stamp duty reform introduced in December 2014. This triggered a downward price adjustment in the final quarter of last year, and has held back price growth subsequently.

Over the past year, price changes have broadly reflected stamp duty increases at different price points and therefore growth has been concentrated in the sub £2m market. Homes in the £500k to £1m range, which are subject to lower stamp duty charges, have risen by 3.0% year on year, and in the £1-2m range by a marginal 0.9%. By contrast, those over £2m have adjusted by an average of -2.6% and those over £5m by -4.7%.

Since December 2011 properties between £500k and £1m have seen growth of 32%, and those between £1m and £2m are up by 24% as the emerging prime markets take centre stage.

New wealth

This shifting pattern of price growth is in part a reflection of a change in the sources of wealth generation in the capital and the corresponding

profile of demand. Whereas domestic buyer interest was heavily fuelled by the wealth generated in the financial sector prior to the credit crunch, we are increasingly seeing new tech businesses as wealth creators.

This trend is confirmed by ONS data showing the growth of new business enterprises, collated from PAYE and VAT registrations. London saw a 15% rise in the total number of business enterprises between 2009 and 2014 across all industries. However, while the Financial and Insurance Industries sector shrank by just under 2%, the number of businesses in the Information & Communication and Professional, Scientific and Tech sectors rose by 32% and 28% respectively over the same period.

These businesses cluster in less established commercial areas of London and new prime residential markets begin to emerge as a result. The boroughs of Islington, Lambeth and Hackney have seen the biggest increases in such businesses, an increase of over 6,200 business units in these two sectors, a rise of some 50%.

Emerging prime markets

Data from the 2011 census provides us with insights into the way younger affluent buyers, often at the forefront of this new enterprise, have pioneered new housing markets. By identifying areas of where wealthy under 35s more than double the number of wealthy over 50s we can see where this has happened.

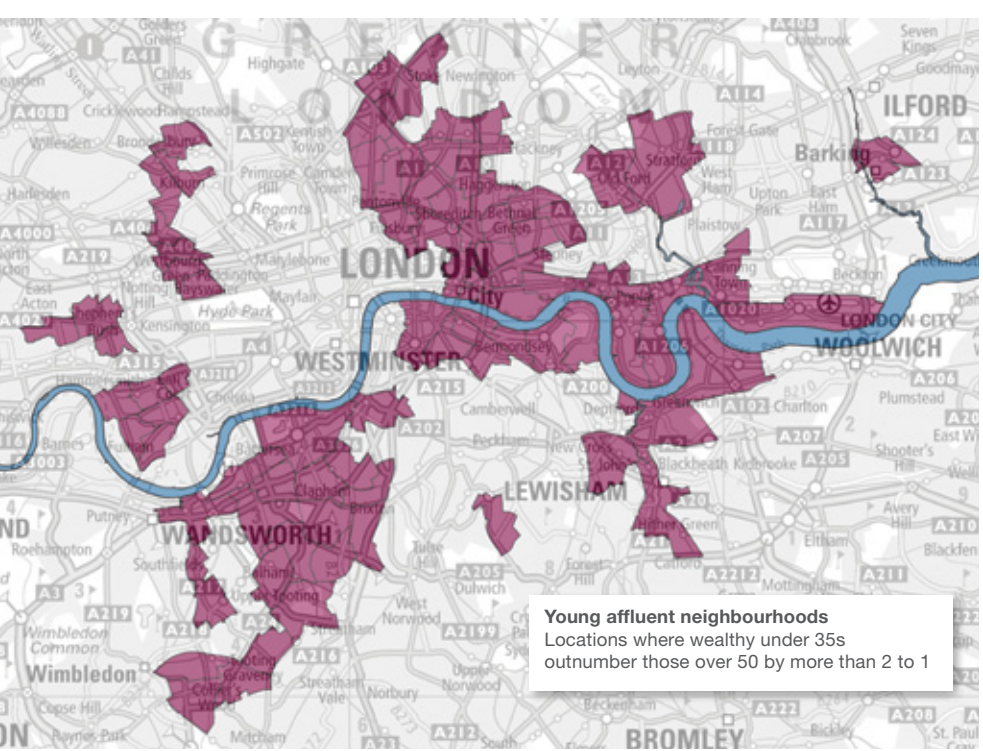
This follows a pattern we have identified in the past, namely emerging prime markets tend to develop in locations that are ‘new, novel or next door’ to existing prime markets or a combination of all three.

In some cases the emerging prime locations include areas on the fringes of existing prime areas: locations such as Balham, Tooting and Colliers Wood in South West London or Kilburn and West Hampstead to the North.

Others coincide with the growth of new business enterprise such as Dalston, Hoxton, Spitalfields and Clerkenwell or Highbury and Finsbury Park.

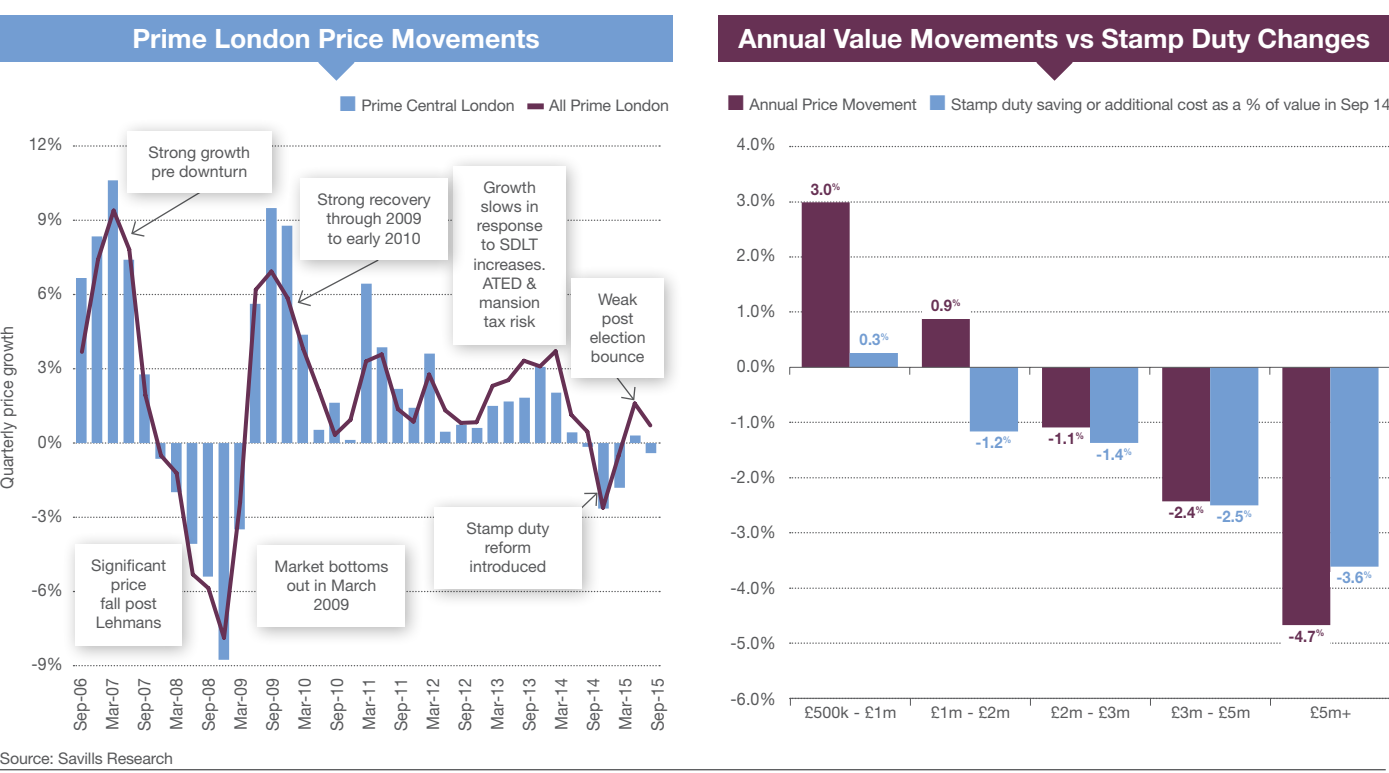
A third group comprises maturing, primarily residential areas such as Ealing and Shepherd’s Bush, while regeneration areas such as Bermondsey, Surrey Docks and the Greenwich Peninsula have also attracted younger households. ■

FIGURE 3 Markets pioneered by young affluent buyers



Source: Savills Research, 2011 Census

FIGURE 2 Prime London price growth by price band



EXTENSION NUMBERS

Extending homes in established prime areas

With the cost of moving in the established prime London markets rising due to stamp duty increases, we expect more owners to extend their property. Planning application statistics indicate 220,000 people in England extended their home in the year to June 2015, adding an estimated £6.6bn to the value of their homes. This equates to 1 in 73 owner occupied homes.

The numbers for London are much higher than the national average. Hammersmith and Fulham topped the list, with over 1,600 applications, equivalent to 1 in 16 owner occupied homes. The next highest London borough was Kensington and Chelsea where 1 in 27 homeowners sought to extend, with Richmond upon Thames fifth in the list of all local authorities in England.

Local Authority	Number extending (year to Jun-15)	Proportion of all owner occupied stock		Value Uplift £m
Hammersmith & Fulham	1634	6.2%	1 in 16	£149.4
Hertsmere	1022	3.8%	1 in 26	£45.2
South Bucks	755	3.8%	1 in 26	£47.5
Kensington and Chelsea	978	3.7%	1 in 27	£170.3
Richmond upon Thames	1803	3.6%	1 in 28	£148.1
Elmbridge	1382	3.6%	1 in 28	£101.6
Brent	1544	3.5%	1 in 29	£73.6
Waverley	1246	3.4%	1 in 29	£65.0
St Albans	1338	3.3%	1 in 30	£69.4
Hounslow	1566	3.3%	1 in 30	£73.6

Source: Savills Research, DGLG

Map CROSSING LONDON'S PRIME THRESHOLDS



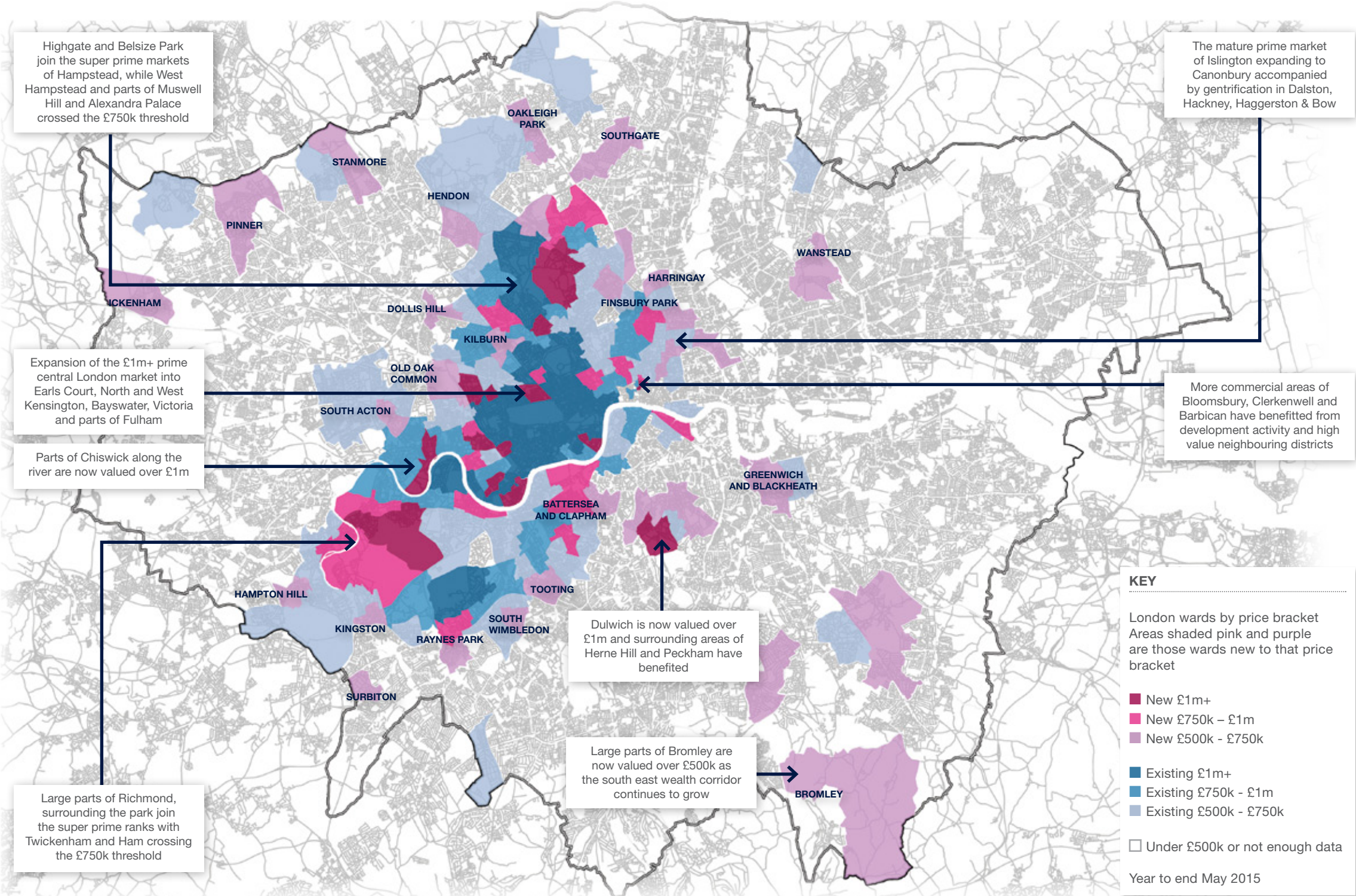
FULHAM
Part of the expansion of prime central London



HIGHGATE
Joins the super prime markets of Hampstead



CHISWICK
Many riverside properties valued £1m+



Looking at the average price of properties sold over the past year across London shows an interesting picture of areas that are crossing key price thresholds. House price growth has resulted in a 27% increase in the number of wards where the average value of property sold over the 12 months to the end of May exceeded £500k, and a 153% increase over the past five years. The catalyst for change in these areas can be organic expansion of the neighbouring prime locations or from regeneration and infrastructure improvements.

On this map, we show areas with average sale prices of £500k-£750k, £750k-£1m and £1m+ using Land Registry records of sales over the past year. Areas shaded pink and purple show wards where the average sale price crossed a threshold compared to the previous year's average, with the depth of shade representing different values.

At the top end of the London housing market, the number of wards with an average sale price of over £1m has risen from 17 to 50 in five years. The boroughs of Kensington & Chelsea and Westminster account for the vast majority of £1m+ wards, while this year locations including Earls Court, North Kensington, Bayswater and Victoria joined the more established markets such as Chelsea and Mayfair. Beyond central London, the £1m+ market has expanded to include more of Fulham, Highgate, Chiswick, East Sheen and Dulwich.

In the lower tiers of the prime market, many of the newcomers have benefited from being locations next door to a high value housing market. In the south west, Tooting and Kingston are good examples and to the north west Kilburn is joining the two much higher value housing markets of West Hampstead and St John's Wood. Other locations such as Old Oak Common and Greenwich are seeing the results of regeneration, while South Acton has seen an uplift in the anticipation of Crossrail.

“The past year has seen a 27% increase in the number of wards with an average value above £500k”

Sophie Chick, Savills Research

Source: Savills Research

Legislation ADAPTING TO CHANGE

How will the prime London market respond to a changed tax & mortgage environment?



“The market continues to adjust to the stamp duty reform of Dec 2014”

Lucian Cook, Savills Research

The 2015 General Election was widely expected to mark a turning point for London’s prime housing markets when either the market would re-price if the threat of a mansion tax materialised, or bounce back if not, after a period of pre election caution.

In reality, despite the certainty of the election outcome, the market continues to adjust to the stamp duty reform of December 2014 and, in some cases, the Mortgage Market Review of April 2014.

Across the prime London market prices rose by just 2.3% in the six months to the end of September 2015, leaving them effectively the same as a year previous, largely as a result of the falls triggered immediately after the new stamp duty rates were announced. The slowing price growth also reflects a market that had seen

five and a half years of sustained growth prior to the announcement of these tax changes.

This raises the question of whether prime London pricing can resume a strong upward trajectory or is a much more sedate market to be expected in the new tax environment? Early signs are that the fundamentals of demand remain sound, but it will take time for buyer and seller expectations to realign, pointing to a period of lower growth.

The role of tax

Though the tax environment has become less favourable for buyers, international wealth continues to grow and there are still many non-fiscal reasons why London remains an attractive location for the ultra high net worth individuals (UHNWI) to invest.

The effective stamp duty rate is now over 7% for any property worth over £1.725 million and over 10% for any property purchased for more than £4.3 million. This compares to a previous flat 7% rate for all properties over £2m.

The tax on a £5m property now stands at £513,750. Ten years ago the stamp duty on the same property, then worth £2.2m, would have been just £88,000.

For non doms, such properties have become more difficult to shield from inheritance tax following the first

budget of the new parliament, with corporate ownership viewed with suspicion by the current government.

While the new rates of stamp duty undoubtedly look onerous, there seems little chance of a policy reversal in the immediate future, unless the change results in a net loss to the exchequer. Though transaction levels at the top end of the market have undoubtedly slipped, it does not appear that stamp duty revenues from this part of the market have fallen to any significant degree so far.

Mortgage regulation

Equity has always played an important role in the prime London markets, but the prime markets are not immune from the effects of the Mortgage Market Review.

Cash buyers are most dominant in the highest value housing markets, with 75% of purchasers in prime central London buying without borrowing. Nonetheless, we estimate those buying homes worth over £1m borrow a total of around £6.1bn a year across the UK, with London accounting for under 70% of this sum.

This means that outside the most expensive central London locations, some 51% of prime London buyers rely on a mortgage to cover at least half the purchase price of their property. As such, the availability and cost of a mortgage still has an important part to play in more domestic parts of the prime market.

For those moving up the housing ladder, higher levels of stamp duty will erode the equity built up in a previous home. This will make them more reliant on mortgage borrowing for their next purchase, at a time when mortgage regulation reduces high loan to value and income lending, as well as borrowing against bonuses.

Looking forward

Examples such as the one outlined in the case study panel suggest buyer caution will remain a feature of the prime London market. We therefore expect this market to remain price sensitive over the next 12 to 18 months as it adjusts to a changed tax and mortgage environment. However, the underlying drivers of demand, explored in more detail on pages 10 and 11, suggest that following this adjustment, we can expect a return to trend rates of price growth in due course. ■

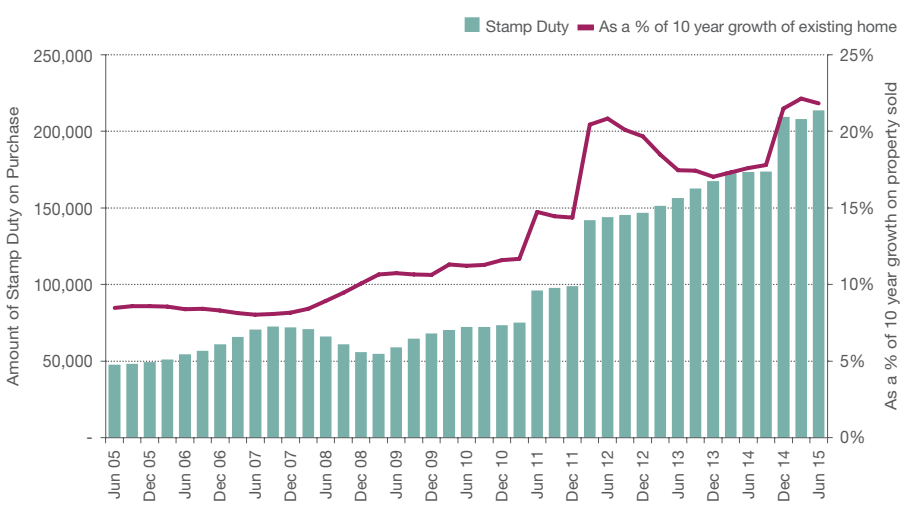
CASE STUDY: SOUTH WEST LONDON

Upsizing to a £2.5m property

A buyer in south west London looking to trade up from a home worth £1.875m to a property worth £2.5m will have built up £518,000 in equity after five years of ownership. The stamp duty on their new home will be £213,750, equivalent to 41% of that equity. Even after 10 years of ownership, the stamp duty would account for 22% of the accumulated equity.

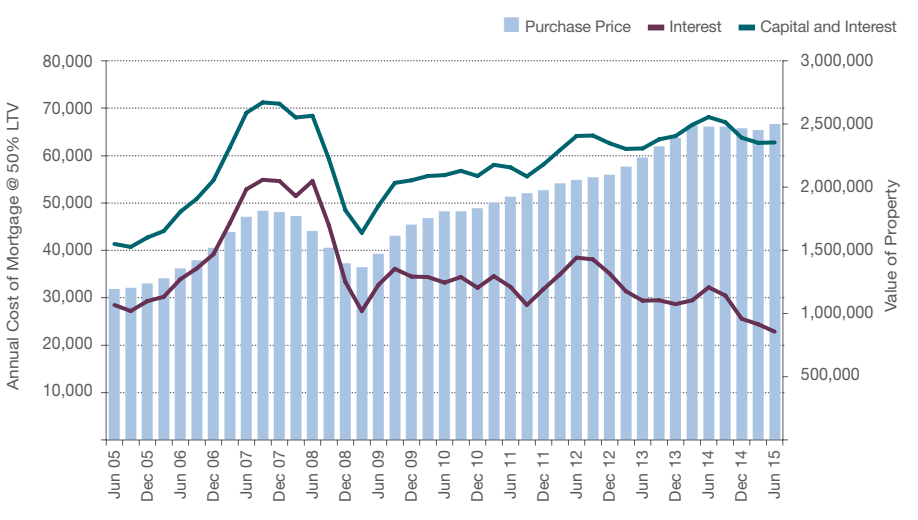
Given lending constraints and the inevitability of interest rate rises, we would expect more upsizers to look beyond established prime locations, or outside London, to lower value markets, where their money will stretch to a larger property. This may lead to a ripple out of London, also reducing the amount of existing housing wealth being recycled in the capital.

FIGURE 4
Stamp Duty on a £2.5m South West London Home



Source: Savills Research

FIGURE 5
Value and Cost of Finance of a £2.5m property in SW London



Source: Savills Research



Demand

PROSPECTS FOR WEALTH GENERATION

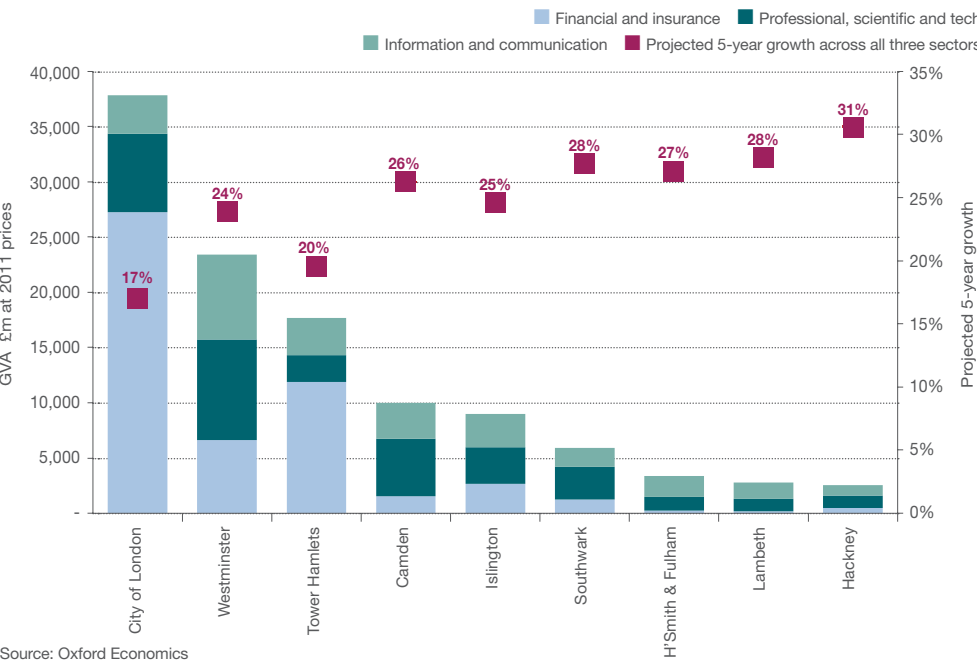
High Net Worth Individuals are a key source of demand for the prime London residential markets



“The wealth of HNWI’s is forecast to rise by a further 25% over the next three years”

Lucian Cook, Savills Research

FIGURE 6
Economic Output as a driver of wealth



Source: Oxford Economics

The UK is home to some 550,000 high net worth individuals (HNWIs) according to the 2015 CAP Gemini/Royal Bank of Canada World Wealth Report, putting it in the top five globally behind the US, Japan, Germany and China.

Many of these individuals, from both the UK and overseas, will own a main residence in London as well as investing in property to let out. This article identifies these individuals and establishes the sources of equity that will underwrite future demand for prime London housing.

Depth of the market

Our own assessment is that there are 399,000 homes worth over £1m in the UK, of which some 70%, or 275,200, are located in London. Land Registry records indicate that 20% of all £1m+ homes in the UK are located in the two central London

boroughs of Westminster and Kensington & Chelsea.

A further 24% are located across the five boroughs of Wandsworth, Camden, Hammersmith & Fulham, Richmond and Islington, where the markets are predominantly domestic.

Sales of homes worth £1m+ reached a new peak of 19,000 in 2014 according to HMRC figures, having tripled in number over 10 years and exceeded their 2007 level for the first time since the credit crunch. These statistics reflect both the level of wealth generated globally and domestically over the past 10 years.

A high plateau?

Some of the tax changes implemented in the past 12 months probably mean that, for the moment at least, 2014 will represent a high watermark for £1m+ transactions. However, underlying indicators suggest that demand for such property in London is likely to continue to grow, thereby underpinning prices and transaction levels over the medium term.

DOMESTIC DEMAND

British buyers are still the dominant group in every prime London region, making domestic wealth generation critical to the ongoing success of the market. While the capital's workforce is set to grow by 10% in the 10 years to 2024, the nature of employment and, therefore, wealth generation is evolving.

Historically, the financial and insurance services sector has been responsible for significant levels of domestic wealth generation in the UK capital. The financial and insurance businesses of the City of London and Tower Hamlets (home to Canary Wharf) are expected to account for 11% of London's economic output and 4% of its workforce in 2015 according to Oxford Economics.

While the workforce in this sector is forecast to contract by a marginal 2% over the next five years, economic output is still set to rise by 12% in real terms over the same period.

Other wealth generating industries, namely the professional, scientific and tech, and information and communication sectors are set to become important drivers of wealth creation. Economic output from these sectors is forecast to rise by 30% in real terms over the next five years, with employment growth of 12%.

As discussed on pages 4 and 5,

this is likely to bring a gradual change in the profile of domestic demand across London's prime sales and rental markets, both in terms of composition and geography.

In the boroughs of the City of London, Westminster, Tower Hamlets and Camden economic output from the three main wealth generating sectors is expected to increase by 20% in real terms over five years. Meanwhile, across Southwark, Hammersmith & Fulham, Lambeth and Hackney growth is forecast at 27%.

INTERNATIONAL DEMAND

Over the past 10 years, the total number of global HNWI's (with net worth of over \$1 million) has risen by 77% according to the CAP Gemini/Royal Bank of Canada report. Importantly, this growth has been broadly consistent across various tiers of wealth.

Mid and upper tier millionaires and ultra high net worth individuals (UHNWIs), with net assets of \$5m to \$10m, \$10m to \$30m and \$30m+ respectively, have a progressively greater propensity to buy prime London residential property.

By contrast, the 'millionaire next door' with assets of \$1m to \$5m, who make up 89% of all global HNWI's, are far less likely to do so, unless they are based in the UK full time, concentrating more on lower value investment stock when they do invest in London residential real estate.

Overall, the wealth of HNWI's is forecast to rise by a further 25% over the next three years according to the CAP Gemini/Royal Bank of Canada report. Meanwhile Wealth-X is forecasting that the number of UHNWIs will grow by 24% over the next five years.

In the prime London property market, the growth of private wealth across the European, Middle Eastern and Asian markets is the most relevant. Therefore, the improving economic forecasts for the Eurozone (concerns around Greece notwithstanding), the emerging markets of Europe and the Middle East & North Africa cast a positive light on future investment in prime London.

In the developing Asian economies, the economic growth forecast for the next five years is lower than the previous five, having regard to the projected slowdown in China. However, it is still forecast to be higher than across other major regions. ■

GLOBAL WEALTH IN NUMBERS

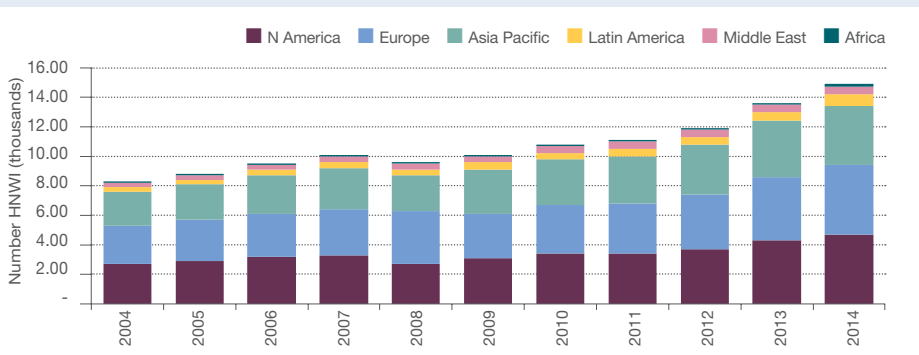
The future wealth of HNWI's across the globe

NUMBER OF HNWI'S 2014 BY TYPE		
Ultra High Net Worth	Over \$30m	211,275
Upper Tier Millionaires	\$10m - \$30m	682,775
Mid Tier Millionaires	\$5m - \$10m	835,950
Millionaire Next Door	\$1m - \$5m	14,930,000

Source: WealthX

NUMBER OF HNWI'S BY COUNTRY				
Rank	HNWI	2009	2014	5 year growth
1	US	2,866,000	4,351,000	52%
2	Japan	1,650,000	2,452,000	49%
3	Germany	861,000	1,141,000	33%
4	China	477,000	890,000	87%
5	UK	448,000	550,000	23%
6	France	383,000	472,000	23%
7	Switzerland	222,000	343,000	55%
8	Canada	251,000	331,000	32%
9	Australia	174,000	226,000	30%
10	Italy	179,000	219,000	22%
11	India	127,000	198,000	56%

Source: Cap Gemini / Royal Bank of Canada



Source: Cap Gemini / Royal Bank of Canada

GLOBAL ECONOMIC GROWTH FIGURES AND FORECASTS				
GDP Growth in US\$ (current Prices)	2000-2005	2005-2010	2010-2015	2015-2020
World	42%	39%	14%	32%
Major advanced economies (G7)	29%	16%	6%	23%
European Union	62%	18%	-3%	24%
Other advanced economies	53%	39%	13%	28%
Emerging and developing Asia	78%	136%	68%	47%
Emerging and developing Europe	94%	50%	3%	36%
Middle East and North Africa	73%	84%	14%	41%

Source: IMF (April 2015)

SUMMARY

The prime London market is adjusting to a new fiscal and regulatory backdrop

■ A decisive election was expected to boost confidence in the prime London market, but it remains relatively price sensitive, particularly in higher value submarkets. In the aftermath of the election prices across prime London rose by 2.3% on average, having fallen by 1.4% in late 2014.

■ This reflects the increased transaction costs resulting from successive reforms of stamp duty, and, in the more domestic markets, the ongoing impact of the Mortgage Market Review. It will take time for the market to adjust to these

additional constraints before the fundamentals of demand for prime property restore growth.

■ This will moderate price growth. As such, we have pushed out our 5 year forecasts by a year to 18 months, with the expectation that price growth to the end of 2020 will average a total of 21.5% in the prime central London market.

■ Areas where the average sale price has recently exceeded £1m include Earls Court, Victoria, Highgate, East Sheen and Dulwich.

■ Over the medium term we expect to see the area defined as prime grow and evolve, particularly in line with the changing nature of wealth generation in the capital. Regeneration and infrastructure improvements are likely to continue this trend over the longer term.

■ In brief, the fundamentals of wealth generation support medium term price growth. However, this is likely to be muted in the short term as the market, which currently looks fully valued and fully taxed, adjusts to a new fiscal and regulatory backdrop.

FIGURE 7

Five year forecast values

	2015	2016	2017	2018	2019	2020	5 years to 2020
Prime Central London	-2.0%	0.0%	2.0%	5.0%	6.5%	6.5%	21.5%
Other Prime London	2.0%	2.0%	2.0%	4.0%	4.0%	5.0%	18.2%

Source: Savills Research

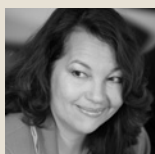
NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

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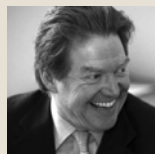


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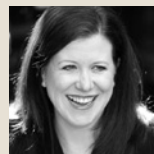
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