

DISCOVER LONDON

Prime North & East London

The market below £1million has seen the strongest annual growth

The sales market

Prime north and east London contains a wide variety of housing stock, ranging from the Georgian terraces of Islington to the converted warehouses in Wapping and the new build developments in Canary Wharf, yet in many ways these housing markets behave very similarly, particularly the market for flats.

Price growth across this region outperformed the prime London average, with values rising 2.4% in the second quarter of 2015. This left annual growth at 3.2% compared to the small falls seen across the wider prime London area.

The strongest growth over the past year was recorded in the market below £1 million, where buyers benefited modestly from the stamp duty reform announced in the Autumn Statement of December 2014. However, price growth was just 4.0% as the mortgage market review continues to restrict the amount people can borrow.

At the top end of the market, buyers have been more cautious, particularly following increases to stamp duty liabilities on higher value purchases and uncertainty surrounding a mansion tax in the run up to the general election. Since the election some of the pent up demand is beginning to flow back into the market, although the new stamp duty rates are still keenly felt by buyers. This has restricted any significant increases in both prices and transaction numbers.

We now expect the prime London housing market to remain relatively subdued over the rest of 2015 as high levels of available stock built up during a long period of pre-election caution and it will take time for this to be absorbed.

Nonetheless, we are forecasting growth to return to the market in 2016 and values to rise by 22.7% over the five years to the end of 2019. ➔

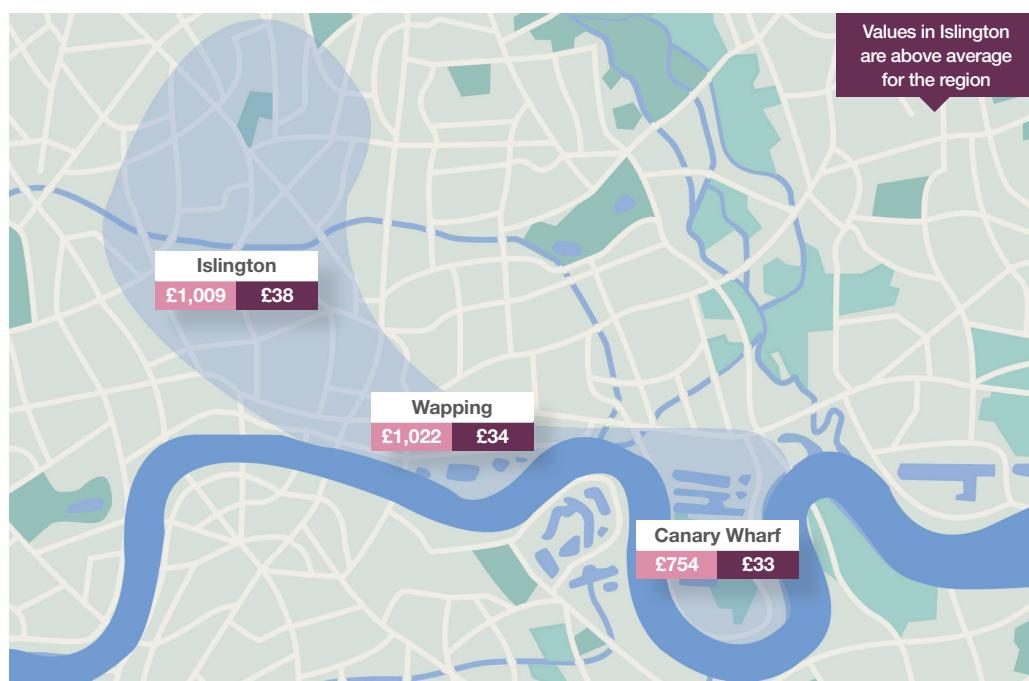
Sales	Quarterly	Annual	5-year
Under £750k	2.3%	4.2%	40.6%
£750k - £1m	2.2%	3.5%	39.0%
£1m - £2m	2.6%	1.8%	38.3%
£2m+	2.5%	2.5%	38.0%
Rents p.w	Quarterly	Annual	5-year
Under £500	1.0%	5.5%	29.8%
£500 - £1000	0.7%	3.9%	18.6%
£1000+	2.3%	7.1%	8.8%

Source: Savills Research



Capital and rental values £/sqft

■ Capital values £/sqft ■ Rental values £/sqft per annum



Source: Savills Research

Capital values per square foot

£926

Rental values per square foot per annum

£35

Average yield

3.9%

The rental market

Recently, the prime north and east London markets have recorded the strongest rental growth seen across any prime London market. Average rents have risen by 4.9% over the past 12 months, following a 1.1% increase over the three months to the end of June. This compares to a more subdued annual growth of 0.5% across the wider prime London market.

The market is driven by a mix of UK and international tenants from a range of employment sectors. While the financial and insurance sector employment market has been subdued since the credit crunch, these locations have been well positioned to benefit from the growth in the information & communication and professional scientific & technical sectors.

Over the next five years, the London economy is forecast to continue strengthening, particularly in the technology and telecommunications industries, which will underpin demand for prime rental property over the medium term.

Value movements to Q2 2015	Capital values	Rental values
Quarterly	2.4%	1.1%
Annual	3.2%	4.9%
5-year	41.7%	18.8%

Source: Savills Research

A potential risk to the sector is the level of new stock being brought to the market by overseas investors in certain locations on the fringes of prime London. In north and east London there are two key locations seeing significant prime development activity at the moment, the City fringe and Canary Wharf. This may lead to rents coming under pressure in the surrounding areas.

Nonetheless, across the prime London markets as a whole we expect rents to rise by 17% over the course of the next five years.

Prime London forecasts

	2015	2016	2017	2018	2019	5-year					
Capital values		-0.5%		7.0%		5.5%		4.5%		4.5%	22.7%
Rental values		2.5%		3.0%		3.5%		3.5%		3.5%	17.1%

Source: Savills Research

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



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