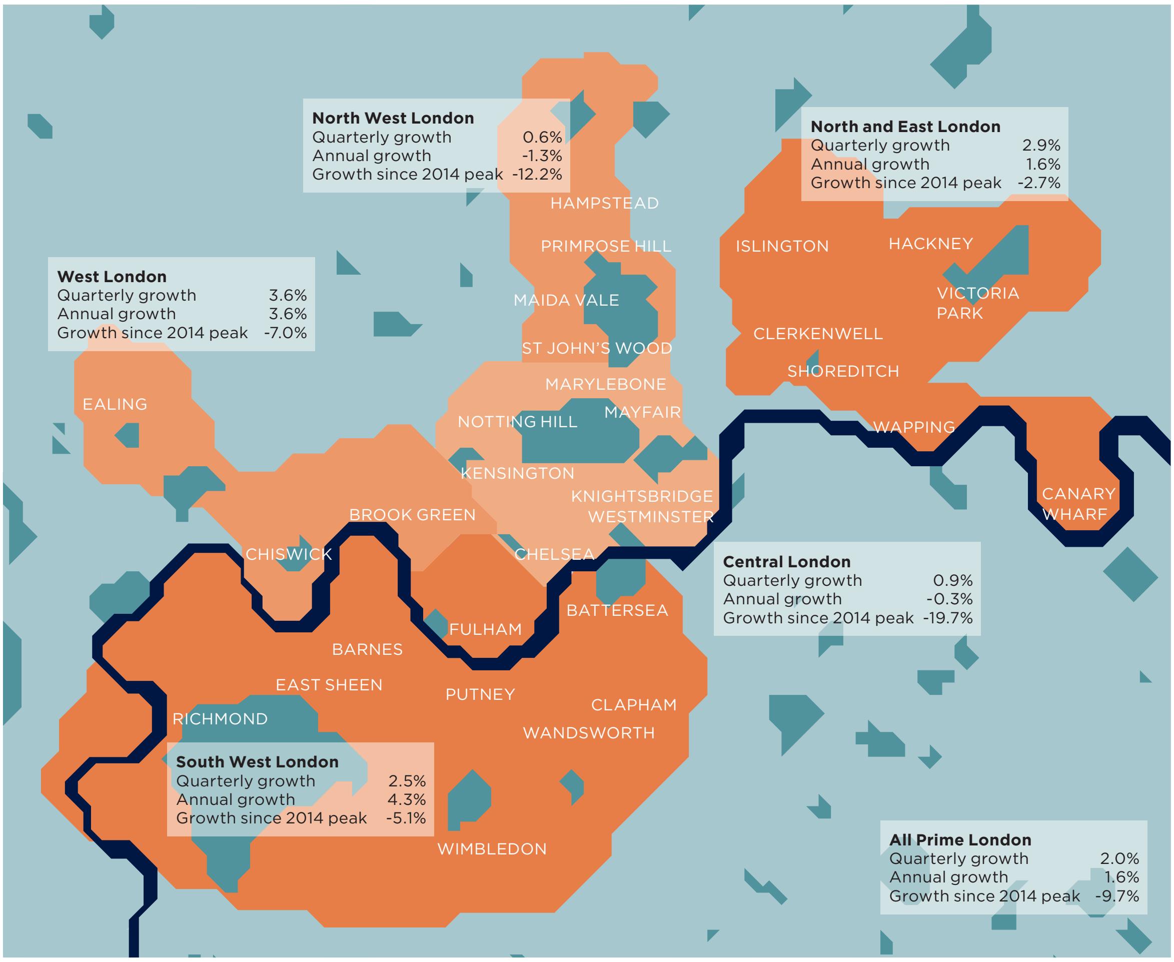
UK Residential – Q1 2020

MARKET IN MINUTES

Savills Research

Prime London Residential

savills



Note Price movements to March 2020 **Source** Savills Research

Prime London recovery put on hold

Prior to the Covid-19 outbreak, prime London's residential markets had begun to see a recovery in prices as a decisive outcome in the December election led to significantly improved buyer confidence. In the three months to mid-March, prices rose by 2.0%, pushing annual price movements into positive territory for the first time in four years.

Throughout 2019, political and Brexit-related uncertainty dampened activity across prime London, with more than two-thirds of agents consistently reporting this as the main challenge affecting their market. However, in the first two and a half months of this year, we saw these constraints easing substantially, with only a quarter of agents citing it as a major factor.

In comparison, those reporting a lack of stock as the biggest issue more than trebled to 68% in Q1 2020. This suggests that potential vendors were yet to feel the renewed levels of confidence seen among buyers.

There was a flurry of activity immediately following the 11 March Budget from those who had hoped for a cut in the rate of stamp duty that did not materialise, unlocking delayed sales and bringing stock to the market. Conversely, some non-UK resident buyers brought forward their purchases in the run up to Budget day in the hope of beating the anticipated stamp duty surcharge, before hearing that it has been delayed to April 2021.

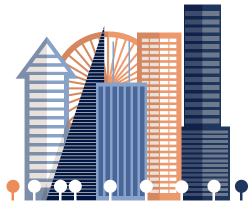
Unsurprisingly, the impact of Covid-19 in recent weeks has understandably weakened market activity and sentiment. The practicalities of carrying out viewings, a falling stock market and general uncertainty are among the main reasons cited by our agents for this.

This will clearly have an effect on transactions, particularly as we approach the typically busier spring and summer months. We anticipate it will likely be autumn before we have more of an understanding on the longer-term impact this may have on pricing.

> “In the three months to mid-March, prices rose by 2.0% across prime London, pushing annual price movements into positive territory for the first time in four years”

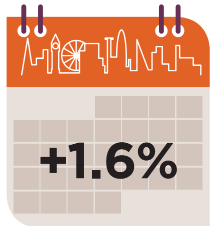
Market monitor

Key statistics for prime London



+2.0%

Quarterly price movement across the prime London housing markets



Annual price movement across the prime London housing markets

68%

Proportion of London agents who reported a lack of stock in Q1 2020

+30%

Increase in £1m+ sales across prime central London in the first 11 weeks of 2020 compared with the same period in 2019

Source Savills Research

Domestic markets are top performers

The highest value central London markets saw a quarterly price rise for only the second time in almost six years, leaving values just 0.3% lower than they were a year ago. Despite this, prices are still 19.7% below their previous 2014 peak.

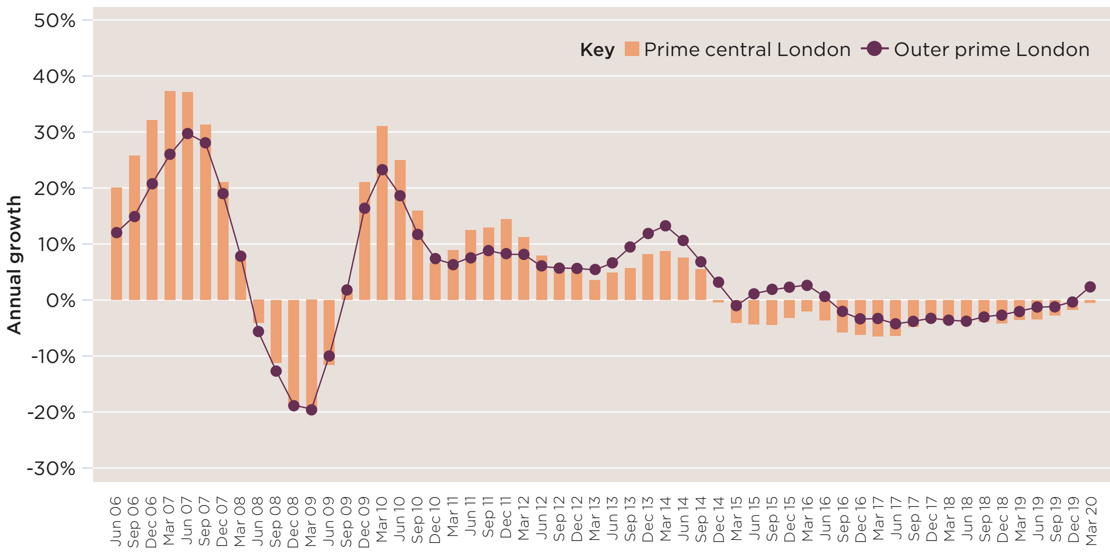
Here, £1 million+ transactions in the first 11 weeks of this year were the highest they have been since 2017. According to LonRes, there were 328 £1 million+ transactions between 1 January and 17 March, 30% higher than in 2019. This highlights the renewed strength of the prime central London markets before the Covid-19 crisis took hold. Understandably, transactions have fallen considerably since then.

The domestic markets of South West and West London have been the strongest performing over the past 12 months with growth of 4.3% and 3.6% respectively. These markets saw strong post-election demand while available stock levels remained low. Agents also reported a narrowing of buyer and seller expectations, mostly because buyers had begun to offer closer to guide price.

Our prime North West London agents reported that more vendors were bringing property to the market after the election and buyers had a renewed sense of confidence which led to a price rise of 0.6% in the first quarter of 2020.

Newly launched properties with a realistic guide price led to more competitive bidding across the prime North and East London markets where prices rose by almost 3% in the three months to mid-March, leaving them 1.6% higher than they were a year ago.

Renewed buyer confidence led to return of growth



Source Savills Research

OUTLOOK

It is now inevitable that market activity will slow for a period, with deals that are well progressed involving delayed completions. The extent of disruption largely depends on the success of measures to curb the spread of Covid-19. In turn, this will determine the impact on the economy and personal wealth, which will be key to prospects for further price growth as activity rebuilds.

Most economists are forecasting a V-shaped downturn, indicating that activity will return more quickly than it has done historically, as concerns over job security and earnings ease. The emergency cut in the bank base rate, economic stimulus from government spending pledges and the willingness of mortgage lenders to take a considerate view of short-term arrears, should also help reduce some of the impact for the more domestic outer prime London markets. Meanwhile, the perceived security of a bricks-and-mortar investment in times of uncertainty should help to underpin values.

Property in prime central London (PCL) has looked good value in both a historical and global context for some time, particularly for dollar buyers, but given the falls in global equity markets, buyers are likely to have less spending power in the short term. However, PCL looks set to continue to represent a buying opportunity for long-term investors, particularly if prices do fall further in the short term. A high proportion of purchases in PCL are cash so we would expect to see it lead the recovery.

The fundamentals of our medium-term view remain. We anticipate a continuation of stronger demand when signs of the Covid-19 effect dissipate. Sellers will need to stay pragmatic on pricing during 2020 as demand becomes more dependent on needs-based and opportunistic buyers.

Definition of prime property This market consists of the most desirable and aspirational property by location, aesthetics, standards of accommodation and value. Typically, it comprises properties in the top 5% of the market by house price.

Savills team

Please contact us for further information

Lucian Cook
Head of Residential Research
07967 555418
lcook@savills.com

Frances Clacy
Associate
Residential Research
07972 000186
fclacy@savills.com

Jonathan Hewlett
Head of London Residential Sales
07967 555626
jhewlett@savills.com