MARKET IN MINUTES
Savills Research

UK Residential – Q3 2018

Prime London residential

Value is critical in a needs-based market

Values in London's prime market fell by 0.6% in the third quarter of 2018. With uncertainty surrounding the shape that Brexit will take and its economic consequences, it is little wonder that the market remains price sensitive.

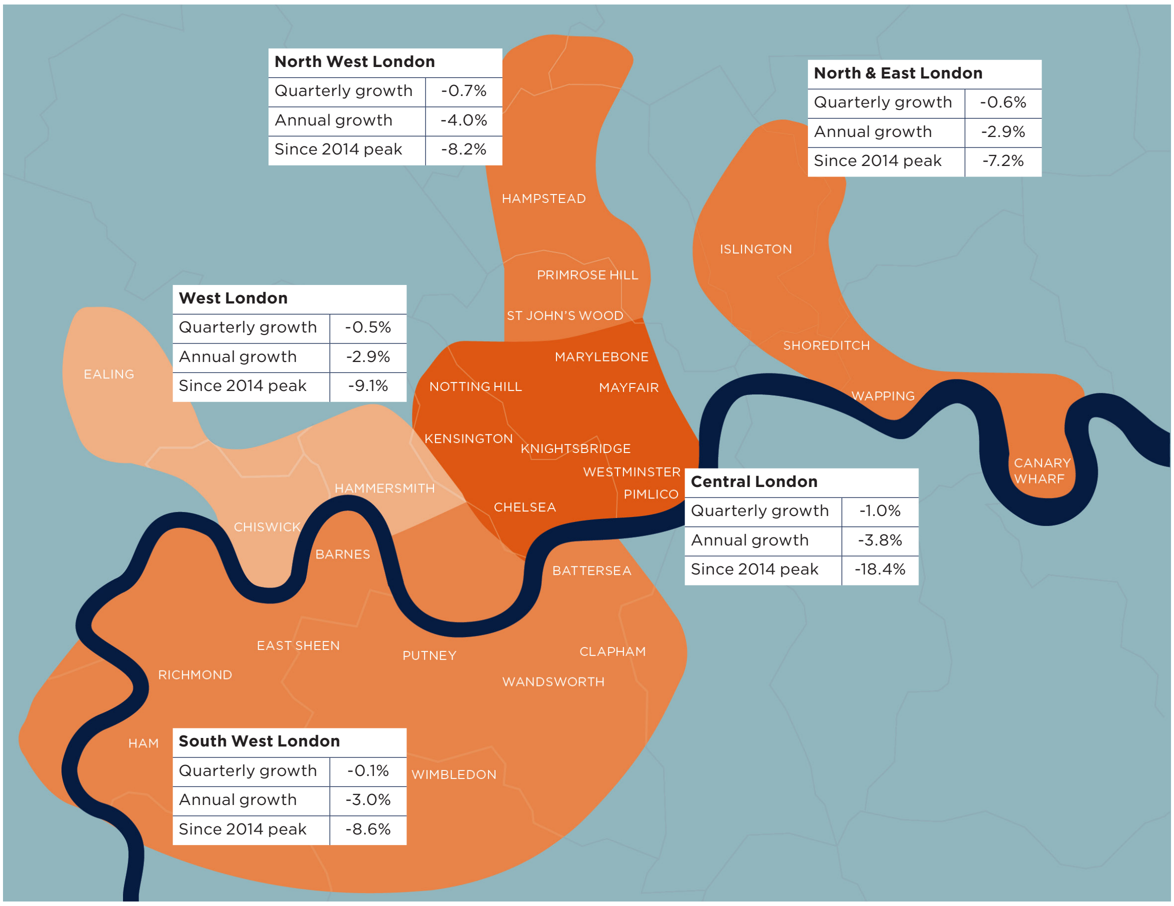
Neither is it surprising that it has remained largely needs-based, with discretionary buyers only active when they can see that a property represents identifiably good value.

The price correction in central London is now approaching the level seen in the early 1990s and in the wake of the global financial crisis. Although there has not been as marked a correction in the other prime London markets, it has still been material. As a consequence, property is beginning to look relatively good value, and well-appointed property that is appropriately priced continues to sell.

We expect these market conditions to continue during Brexit negotiations, both in the run-up to March and into the anticipated transition period.

Despite the prospect of gradually increasing interest rates, a general election scheduled for 2022, and greater exposure to taxation, we forecast a return to price growth from 2021. Barring a full-blown recession or dramatic change in domestic politics, we expect the recovery to be underpinned by London's continued appeal to both commerce and global wealth, though it is likely to be less dramatic than in previous cycles.

Capital expenditure Price movements to September 2018



North West London	
Quarterly growth	-0.7%
Annual growth	-4.0%
Since 2014 peak	-8.2%

North & East London	
Quarterly growth	-0.6%
Annual growth	-2.9%
Since 2014 peak	-7.2%

West London	
Quarterly growth	-0.5%
Annual growth	-2.9%
Since 2014 peak	-9.1%

Central London	
Quarterly growth	-1.0%
Annual growth	-3.8%
Since 2014 peak	-18.4%

South West London	
Quarterly growth	-0.1%
Annual growth	-3.0%
Since 2014 peak	-8.6%

Source Savills Research

Price monitor

Key statistics for house price growth

-3.3%

Annual price movement across the prime London markets at the end of September 2018

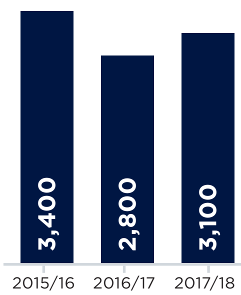
-18.4%

Change in average values in the prime central London market since the peak of the market in 2014

-9.4%

Change in prices in the other prime London markets over the past three years

Source Savills Research



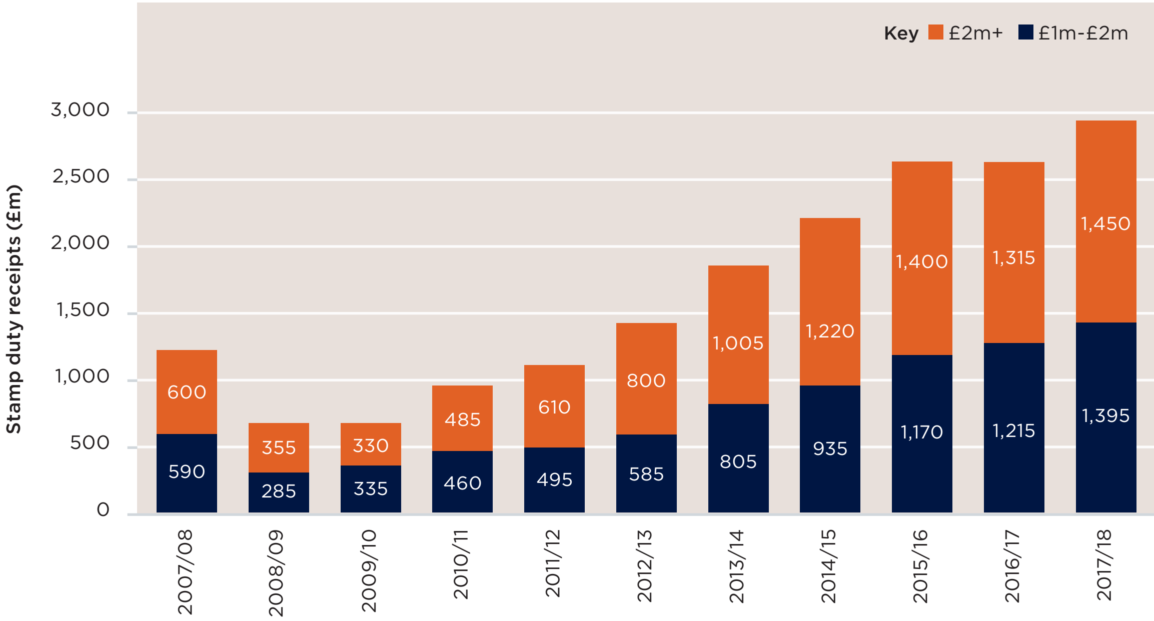
According to figures from HMRC, in 2017/18, residential sales of London properties worth more than £2 million reached 3,100. This is 300 more than in 2016/17.

Five-year forecasts We forecast a return to price growth from 2021

	2018	2019	2020	2021	2022	2023	5-year compound growth to 2023
Prime central London	-5.0%	-1.0%	0.0%	6.0%	2.0%	5.0%	**12.4%**
Other prime London markets	-3.5%	-1.0%	0.0%	3.5%	1.0%	3.5%	**7.1%**

Source Savills Research **Note** These forecasts apply to average prices in the secondhand market. New build values may not move at the same rate

On the rise Stamp duty receipts from properties worth more than £1 million



Source Savills Research using HMRC

TOP END STAMP DUTY RECEIPTS RISE AGAIN IN 2017/18

On 28 September 2018, HMRC published its detailed stamp duty receipt figures for 2017/18. They showed that receipts from property worth more than £1 million totalled almost £2.9 billion. That is a full £1 billion more than in 2013/14 (the last fiscal year before the stamp duty overhaul of December 2014).

Receipts from properties in Kensington and Chelsea and the City of Westminster totalled more than the receipts for the whole of Wales, the North East of England, the North West of England, and Yorkshire and Humberside combined.

NEW NON-UK BUYER SURCHARGE

Two days after HMRC revealed its figures, Theresa May unexpectedly announced proposals for a further stamp duty surcharge on non-UK resident buyers of between 1% and 3% of a property's purchase price.

The measure aims to raise up to £120 million a year, only a fraction of the £1.9 billion raised from the more widespread levy on additional homes in 2017/18.

Nonetheless, it is likely to dampen overseas buyer demand in the short term and mean that the market remains price sensitive in the medium term.

That said, we would not rule out a spike in activity to beat the deadline before the surcharge comes in.

> **“We expect the market to remain price sensitive over the next two years, before a recovery fuelled by prime central London, and tempered by rising interest rates”**

12.4%
Five-year price forecast for prime central London

7.1%
Five-year price forecast for other prime London markets

OUTLOOK

The recent stamp duty announcements are likely to have an impact on sentiment, leading to further small price falls in the last quarter of this year. Given the slow progress in Brexit negotiations, we now expect uncertainty to hang over the market during any transition period after we leave the European Union in March 2019. We have therefore pushed back the forecast recovery in prime housing markets by a year, to 2021. That recovery seems likely to be interrupted in 2022 by a general election. However, assuming the status quo in domestic politics is maintained thereafter, we then expect price growth to resume, although this will be tempered by the prospect of gradually increasing interest rates.

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