Market in minutes

Prime London Residential Markets

Prime central London's appeal to overseas buyers has contributed to it recording its seventh quarter of growth since March 2009.

The prime central London residential market continues to confound expectations and has recorded its seventh quarterly period of growth since March 2009, with values rising 2.8% since the turn of the year.

Growth was seen across all price bands, but high ticket properties have been most in demand. The average price of Savills transactions in the first quarter of 2011 rose by around 65% from the 2010 annual average as the profile of transactions shifted towards larger more expensive properties.

Shift in buyer nationality

This reflects a shift in the profile of overseas demand, with increased activity from Middle Eastern buyers and Russians buying homes, often larger prime London townhouses, for their own use. This has been driven by a combination of strong oil price, continued global wealth creation and the political uncertainty that has driven demand to London as a safe store of that global wealth.

Such buyers have typically replaced the European investor buyers who were more active in the market last year when economic uncertainty in the Eurozone acted as a driver for acquisitions in the lower tiers of the prime market. Whatever the specific nationality, low sterling exchange rates have underpinned the overseas demand that is a core feature of the central London market since 2008.

The flow of equity

Such has been the flow of equity into and within the capital, along with lower than average stock levels, that houses have →

SUMMARY

An overview of the market

■ Price growth returned to the Prime London residential markets in the first quarter of 2011. Strong overseas demand in central London combined with a surge of demand ahead of the stamp duty increase helped to deliver price growth of 2.0% in the first three months of 2011. This compared to 1.3% growth in mainstream markets of the capital.

■ This reflects the fact that London, in particular the prime markets, has continued to perform better than the rest of the country, where a lack of mortgage finance and weak consumer confidence resulting from an uncertain economic outlook caused prices to fall marginally over the same period, according to the Nationwide index.

■ Prime central London showed the strongest growth (+2.8%) during the quarter, though given recent historic price growth, prices in the markets of Prime South West London are closest to their peak ending the first quarter of 2011 within just half of one percentage point from their Q3 2007 levels.

significantly outperformed flats across the market. Average prime London house values rose by 3.4% in the quarter compared to 1.6% for flats. The result is that the average price of houses in our index currently exceeds peak values, albeit by a slim half percentage point margin, while flats remain 10.2% below their peak value.

Stock shortages, extreme in certain sought-after locations, mean there have been some very significant price gains over the past few months. The western area of central London that includes Kensington, Holland Park and Notting Hill, for instance, has outperformed all other prime locations, with prices up 4.3% in the quarter, although average values here remain -7.9% below their peak.

In the prime markets of north London the polarisation between the flat and house markets is more pronounced having recorded price growth of 0.1% and 3.6% in the quarter respectively. Good quality housing in prime north is of extreme short supply and this, coupled with high domestic family demand, has meant that at the end of Q1 2011 the value of prime houses exceeded their 2007 peak by 0.3%.

By contrast flat values remain some 13.4% below 2007 peak levels as mortgage restrictions remain, even limiting the ability of high earning first time buyers to enter the market

The prime east of city flat market is now within 6% of peak, after suffering peak to trough falls of 18% during the most recent downturn.

> "Stock shortages, extreme in certain sought-after locations, mean there have been some very significant price gains over the past few months."

Domestic buyers

Beyond central London overseas wealth has a less direct impact on prime residential prices. Domestic buyers account for some 80 percent of buyers in prime south west and in north London, making purchases less discretionary in nature. This, combined with the high levels of equity intrinsic to these markets, has resulted in the strongest price growth in the UK since the downturn.

In the last quarter of 2010 that price growth slowed, but in prime south west London prices rose by 2.2 percent in the first quarter of 2011 to leave average prices within 0.5 percent of their peak level.

Prime family house values in these areas now exceed their previous peak by 2.2 percent. In these areas, some 50 percent of Savills' buyers have come from the financial and business services sector and renewed confidence in this sector has clearly had an impact.

A market where demand from financial and business services employees accounts for around 80% of all buyers, the prime east of city has returned strong growth, as a result of improving confidence amongst the financial sector, record levels of employment within Canary Wharf and in particular a dearth of new build supply that is usually a prominent feature of the market.

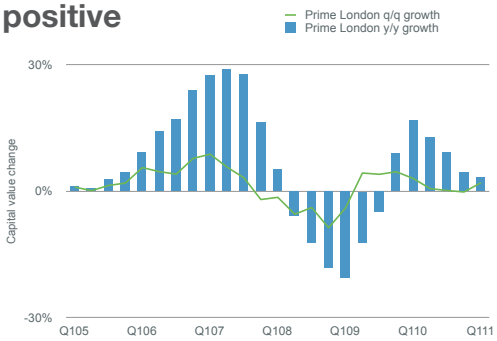
Prime rental market

As with the sales market, prime London rental values have continued to increase during the first quarter of 2011. Stock levels remain below the longer term trend which has resulted in values rising by 3.4% across prime London, with no out performance by either flats or houses.

Stock remains the key driver in rising values, coupled with the reappearance of relocation demand and first time buyers as they continue to be priced out of the sales

GRAPH 1

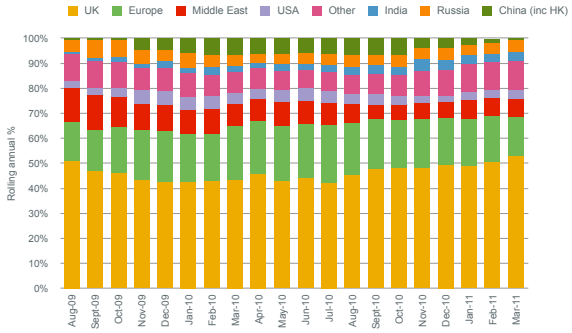
Quarterly values bounce back positive



Graph source: Savills Research

GRAPH 2

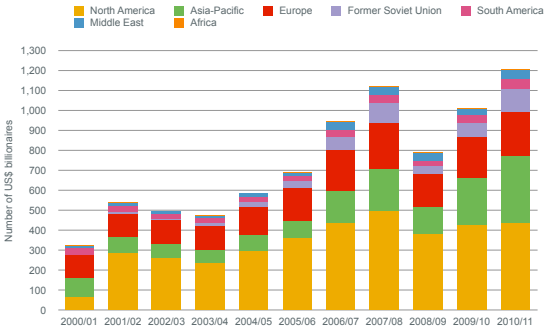
Buyer nationality of prime purchasers



Graph source: Savills Research

GRAPH 3

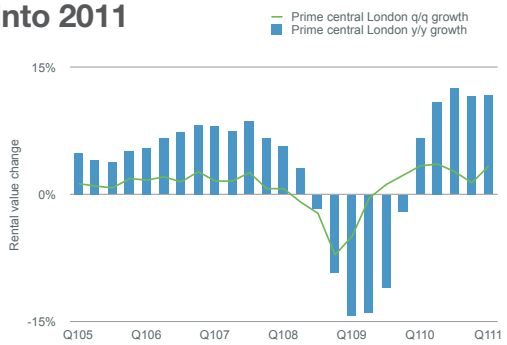
Global Wealth reaches new heights



Graph source: Savills Research using Forbes

GRAPH 4

Strong rental growth continues into 2011



Graph source: Savills Research

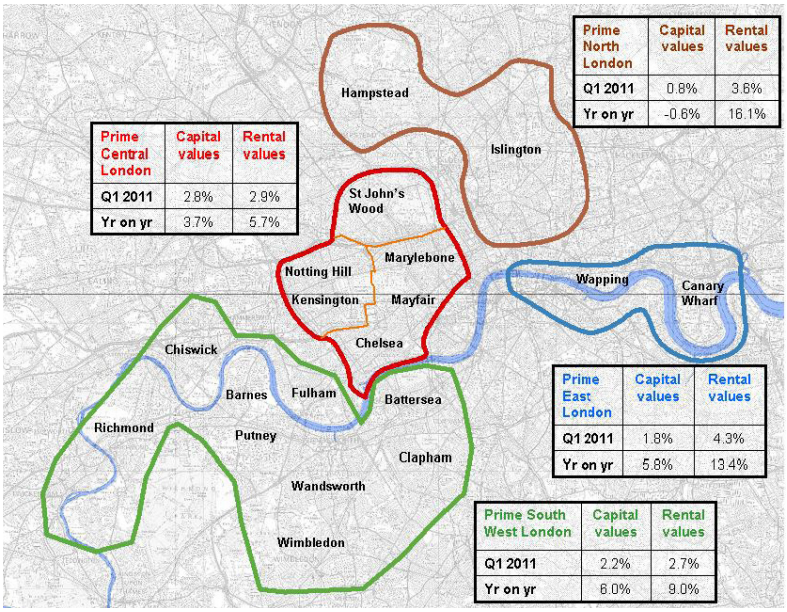
market. Although houses and flats have performed equally across prime London, the lower end of the prime rental market has outperformed the top end, in terms of value growth.

The prime rental market, typically valued around £1,000 per week, is now showing values 2.4% above its previous 2008 peak level, compared with super prime property, typically rented at over £4,000 per week, which is still 11% down from its previous peak. ■

"There is an increased probability of prime London defying the negative sentiment prevalent in the majority of the UK residential property market."

FIGURE 5

Prime indices results, Q1 2011



Prime Central London	Capital values	Rental values
Q1 2011	2.8%	2.9%
Yr on yr	3.7%	5.7%

Prime North London	Capital values	Rental values
Q1 2011	0.8%	3.6%
Yr on yr	-0.6%	16.1%

Prime East London	Capital values	Rental values
Q1 2011	1.8%	4.3%
Yr on yr	5.8%	13.4%

Prime South West London	Capital values	Rental values
Q1 2011	2.2%	2.7%
Yr on yr	6.0%	9.0%

Graph source: Savills Research

OUTLOOK

■ At present, prime sales values show no sign of softening (though growth has slowed from its early recovery in late 2009/early 2010) and there remains strong evidence that London retains its global city status and appeal as a safe deposit for international cash generated in more economically and politically volatile markets. Increasingly, these buyers are viewing prime central London property as a 'gold standard' asset.

■ Over the coming months we will be watching to see if the market has the fundamental strength to sustain the momentum shown over the first quarter of the year.

■ It remains to be seen whether the bonus injection will materialise; to date, bonus buyers have been thin on the ground with bonus payments typically conferring less immediate spending power due to the way in which they are now paid.

■ Additionally, we will have to wait and see the extent to which the increase in stamp duty land tax on £1 million plus property has pulled demand into the first quarter to the detriment of the remainder of 2011.

■ Therefore, it is too early to dismiss the possibility of marginal price falls over 2011, even if there is an increased probability of prime London defying the negative sentiment prevalent in the majority of the UK residential property market. ■

Savills Prime London Residential Index

This Market in Minutes is derived from Savills Prime London Residential Index. The Index is published quarterly and monitors changes in residential sales values and rentals across prime areas within London with historic data dating back to 1979. For further information on the Index, and the opportunity to subscribe to the detailed statistics, contact Sophie Chick (020 7016 3786).

Savills Research team

Please contact us for further information

Yolande Barnes
Director
020 7409 8899
ybarnes@savills.com

Lucian Cook
Director
020 7016 3837
lcook@savills.com

Paul Savitz
Associate
020 7016 3835
psavitz@savills.com

Sophie Chick
Analyst
020 7016 3786
schick@savills.com

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