savills

Prime London residential markets

Signs of stability in prime central London

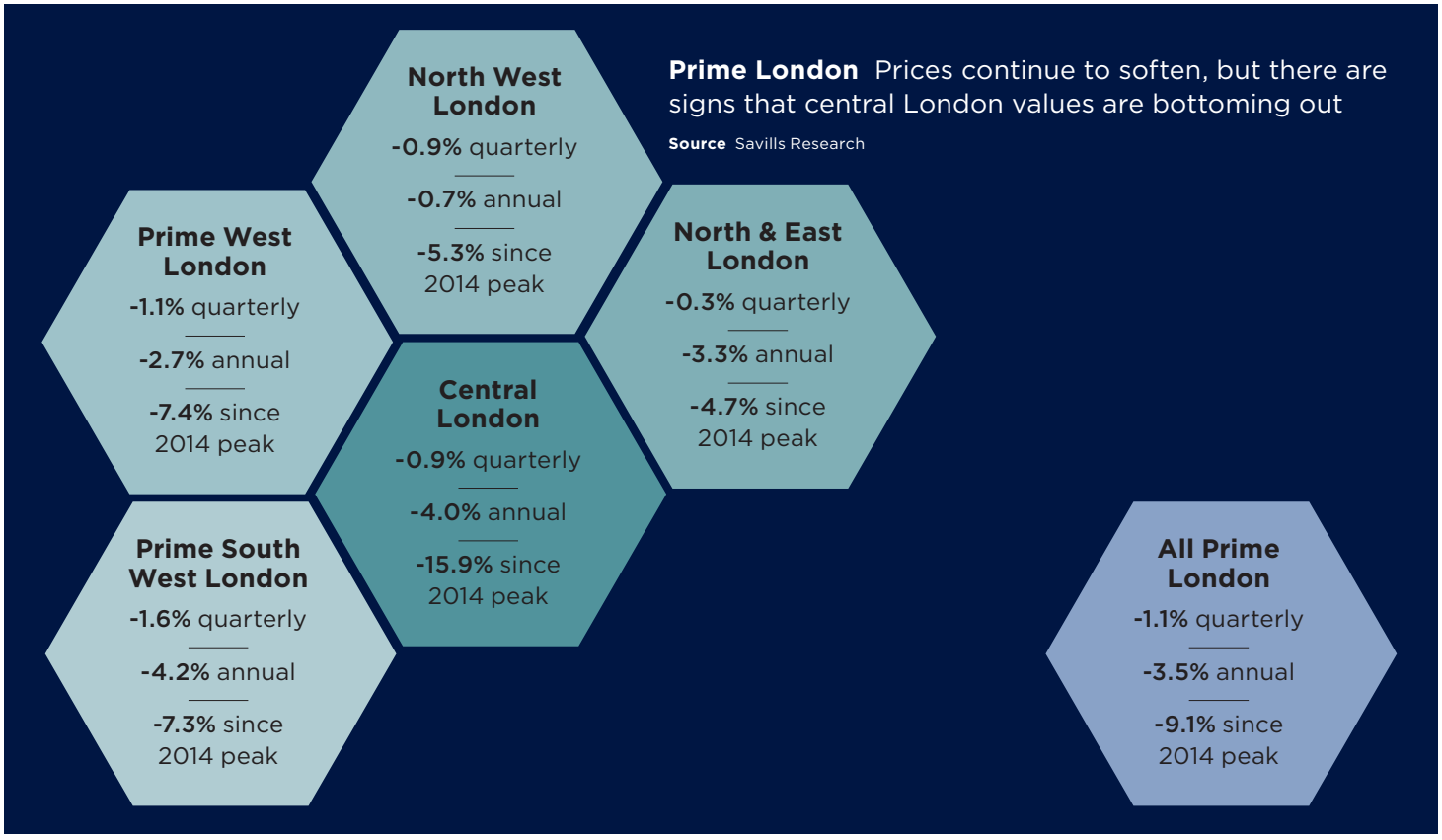
House prices across prime London continued to soften over the last quarter of 2017, leaving values 3.5% below where they were a year ago.

In the central markets, there are signs that values may be bottoming out, following three years of price falls. However, the other more domestic parts of the prime London market are under pressure from fragile buyer sentiment.

Outside of prime central London, where the average value is just below £2 million, prices fell 1.2% over the fourth quarter of 2017 and are now 5.8% down from their peak in September 2014. However, price falls at the top end of the market are more in line with central London, with properties over £2 million now 10.2% below their 2014 level.

Buyers in these more domestic markets are now feeling the constraints of the mortgage market review, as well as uncertainty around the Brexit process and its potential impact on employment, particularly in the financial and business services sector.

-3.5%
Price falls across prime London during 2017



South West London under pressure

For the first time since June 2012, annual price falls in prime South West London have exceeded those in prime central London. Values in central London slipped by a marginal 0.9% in the final quarter of 2017, with annual price falls of 4%.

Across the more domestic prime South West London, values fell by an average of 1.6% in the last three months of 2017 and 4.2% over the year, making it the capital's weakest prime market segment.

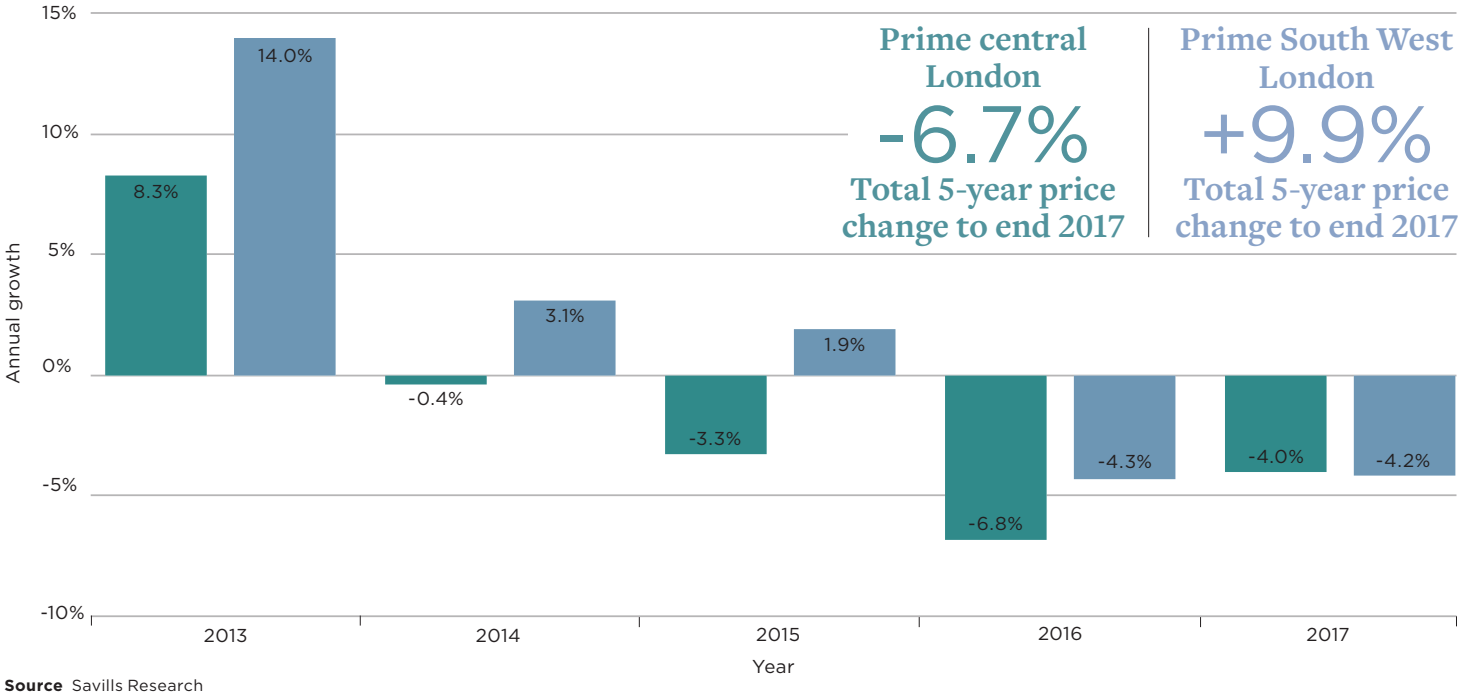
The prime central London housing market appears to be ahead of the curve in adjusting to current market conditions. Values are, on average, 15.9% below their 2014 peak, ahead of the first significant stamp duty increase. However, the rate of price falls has slowed and values are now finding a level.

In prime South West London, the falls have been less than half those seen in prime central London.

Fulham, the market that traditionally behaves more in line with central London than the rest of South West London, has recorded the steepest falls in this submarket. Prices fell by 4.6% in 2017 and are down 14.4% on the 2014 peak, in line with locations such as Knightsbridge and Holland Park.

This means average values in Fulham, which passed the £1,000 psf mark in 2013, have now fallen back to £890. This is just below the £910 prime Battersea average and well below Chelsea's £1,600. This repositions Fulham as a value location for those looking to make their equity stretch further than in prime central London.

South West slide Annual price falls in prime South West London exceeded prime central London in 2017



Source Savills Research

Outlook

The prime central London market may be bottoming out, but we don't expect a return to growth until there's greater clarity on the Brexit process. Economic uncertainty means the market will remain discretionary, while international buyers will be reluctant to take advantage of the currency play given the high tax environment. Our forecasts anticipate it will be two years before we see a bounce in values. With continued weakness in other prime London markets, we forecast small falls in 2018. These markets are more dependent on domestic wealth generation and access to borrowing than prime central London. As such, our forecasts are for modest house price growth over the next five years.

Prime prospects We forecast a bounce in values in central London by 2020

	2018	2019	2020	2021	2022	5-year compound growth
Prime central London	0.0%	2.0%	8.0%	5.5%	3.5%	20.3%
Other prime London	-2.0%	0.0%	5.0%	4.5%	2.5%	10.2%

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

Savills team

Please contact us for further information

Lucian Cook
Head of UK
Residential Research
020 7016 3837
lcook@savills.com

Katy Warrick
Head of London
Residential Research
020 7016 3884
kwarrick@savills.com

Kirsty Bennison
Associate, UK
Residential Research
020 7016 3836
kbennison@savills.com

savills