Market in Minutes
Prime London Residential Markets

July 2013

SUMMARY

Domestic prime London now outperforming core central locations

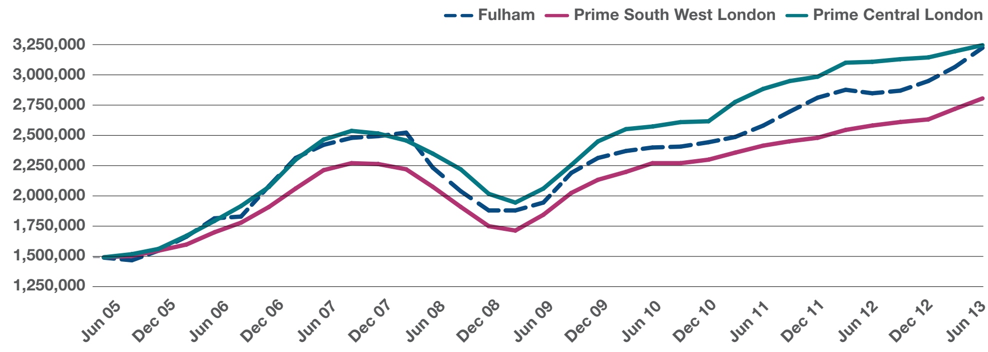
■ Across prime London prices rose 2.5% between April and June, bringing annual growth up to 6.6% from 5.5% at the end of the first quarter.

■ Prime central London values rose by just 1.6% in the quarter and 4.4% year-on-year on average.

■ The strongest growth was seen in the predominantly domestic markets of prime South West London, where values rose 3.2% in the last quarter. Annual growth now stands at 8.5%, almost double that seen in prime central London.

GRAPH 1

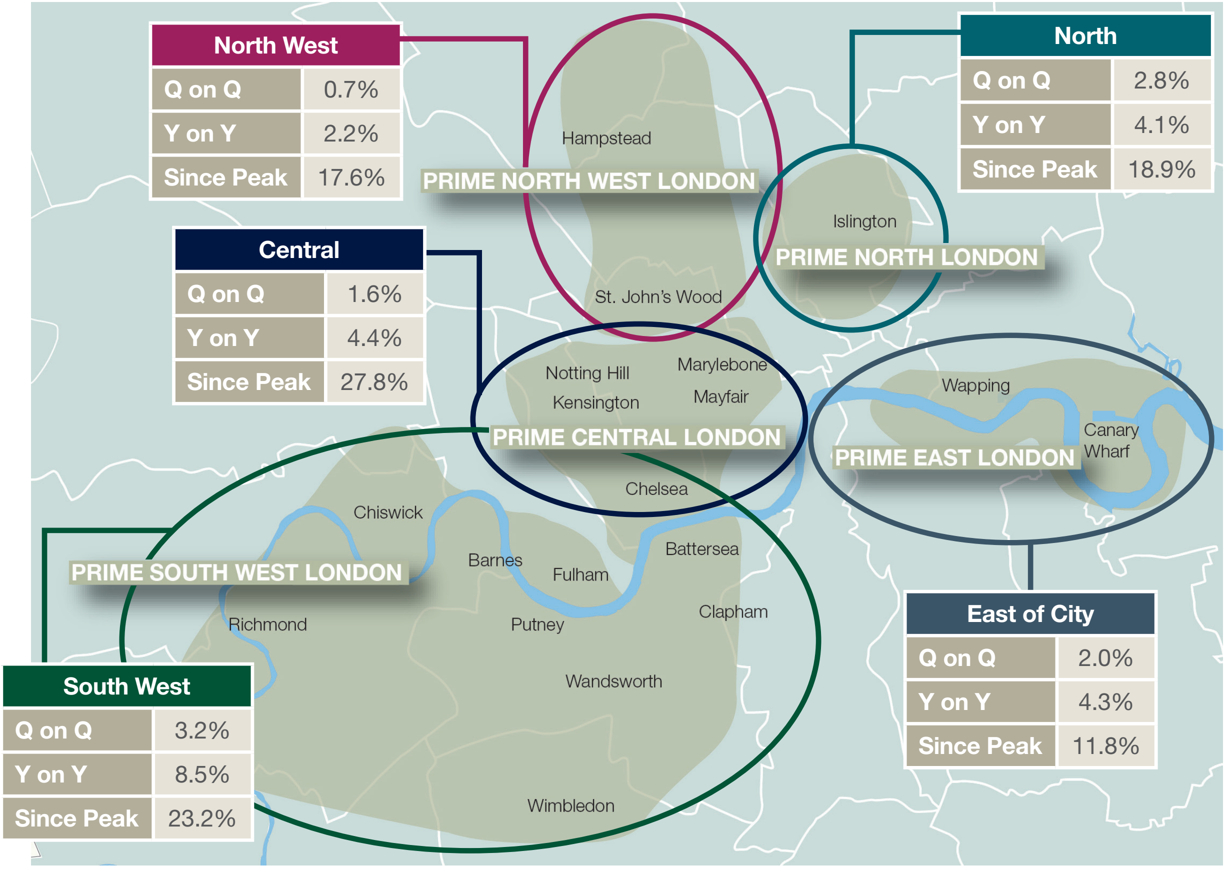
Movements in the value of a property worth £1.5m in June 2005



Source: Savills Research

MAP 1

Price movements in the prime London markets to Q2 2013



Source: Savills Research

The prime London residential market recorded the strongest price growth in the second quarter of 2013 for over a year, defying expectations that values would flatline this year and continuing a period of steady, if unspectacular, capital appreciation.

Across prime London prices rose 2.5% between April and June, bringing annual growth up to 6.6% from 5.5% at the end of the first quarter. But there are significant differences in performance between locations and price bands that reflect differences in buyer profiles, reasons for purchase and their perception of the market, with evidence that some market segments are now looking fully valued.

South West London leads

The strongest growth was seen in the predominantly domestic markets of prime South West London (running from Fulham to Richmond and Battersea to Wimbledon), where values rose 3.2% in the last quarter. Annual growth now stands at 8.5%, much higher than the 4.4% seen in prime central London. Despite reduced city bonuses, these markets are benefiting from wealth accumulated prior to the downturn, new wealth creation, especially from West End hedge funds, and increased buying activity from international buyers working and resident full time in the capital.

At the same time, domestic wealth has resisted a move out of the capital in this recovery cycle, resulting in a concentration of demand in prime South West London and similar markets such as Islington.

The best performing local market has been Fulham, which is increasingly seen as a hybrid between central London and South West London by showing some of the attributes of both markets at a price point between the two. This reflects the fact that it is undergoing a process of ultra-gentrification, attracting international and domestic buyers who, despite

> "The best performing local market has been Fulham, which is increasingly seen as a hybrid between central London and South West London by showing some of the attributes of both markets at a price point between the two" Lucian Cook, Savills Research

significant wealth, have been priced out of the central London market.

Prime Central London stratified

Prime central London values rose by just 1.6% in the quarter and 4.4% year-on-year on average. Here, price growth has become concentrated in the very core locations of Mayfair, Chelsea, Belgravia and Knightsbridge, which are the primary focus of new global wealth.

Other central London markets have remained more reliant on old world money and price growth has become more subdued. Locations such as Kensington, Holland Park, Notting Hill and St John's Wood have been more sensitive to the effect of stamp duty changes for properties over £2 million than the core central locations. This has focused buyers' minds on whether certain segments of the market are fully valued at this point in the cycle.

Properties worth over £10 million have outperformed the rest of the market since the beginning of 2005 with values 38% above their pre-crunch levels. For the moment at least, values appear to have plateaued, although transaction levels remain robust.

Indeed, in the first half of the year there were in excess of 85 transactions of properties above this price level, a 30% increase on the same period in 2012, leaving little new build stock in this price bracket available to buy.

TABLE 1

PRIME MARKETS Five-year forecast values

	2013	2014	2015	2016	2017	5yrs to end 2017
Prime Central London*	6.0%	3.0%	-1.0%	8.0%	6.5%	24.3%

Source: Savills Research

*Assuming no further changes to the taxation of high value property

"Properties worth over £10 million have outperformed the rest of the market since the beginning of 2005"
Lucian Cook, Savills Research

Two-tier East of City

In the East of City, the divergence between the markets of Wapping and Canary Wharf continues, with the former seeing annual price growth of 5.8%, compared to 2.3% in the latter.

Whilst this means prices for prime residential property in Canary Wharf have recovered to their pre-crunch levels for the first time, prices in Wapping are some 20% above those levels, having performed much more in line with the prime London market as a whole.

OUTLOOK

The market in 2013

At the end of 2012, we forecast that London's prime residential markets would be static through 2013, given the additional transaction costs imposed by the tax changes of the 2012 Budget. While these measures did cause a period of reduced price growth, they appear to have been absorbed by the market more readily than expected.

As a result we have brought forward some of the price growth, which we forecast for the next five years. With prime property, its taxation and the impact of international investment all under political scrutiny, we believe the next test of the market will come in the run up to the next general election.

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